



Minutes

Name of meeting	AUDIT COMMITTEE
Date and time	THURSDAY, 3 DECEMBER 2015 COMMENCING AT 10.00 AM
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Present	Cllrs Stuart Hutchinson (Chairman), Reg Barry, David Eccles, John Howe, Dave Stewart, Roger Whitby-Smith
Other Members Present (non-voting)	Cllr Jonathan Bacon
Auditors Present	Kate Handy, Helen Thompson (Ernst and Young) Emma Butler, Geraint Newton (Pricewaterhousecoopers)
Co-opted Member (non voting)	Paul Wilkinson
Officers Present	Jennifer Beresford, Hayley Holden, Helen Miles, Bob Streets, Jo Thistlewood
Apologies	Cllr John Medland

16. [Minutes](#)

RESOLVED :

THAT the Minutes of the meeting held on [29 September 2015](#) be confirmed.

17. **Declarations of Interest**

There were no declarations received at this stage.

18. [The Council's Risk Profile – Questions to the Head of Contract Management](#)

The Head of Contract Management responded to a number of in relation to the strategic risk “The Council fails to achieve the required outcomes from its significant contractual relationships and fails to successfully resolve some anomalies in the contracts interpretation (in relation to the 25 years Highways PFI).

Members were advised that formal dispute proceedings, under the contract terms between the Council and Island Roads, had commenced. An adjudicator had been appointed and evidence had been submitted. It was expected that the adjudicator's decision would be received in December 2015. Either party could then refer the decision to arbitration, within 30 business days to if unhappy with the outcome.

The Head of Contract management expressed his main concern on his appointment had related to insufficient resource and lack of engineering expertise in the contract management team. The measures taken to address these concerns were outlined: the appointment of two officers and the engagement of WS Atkins as a consultant. Members were reassured that the commencement of the waste contract had increased the capacity on the team. The staff involved in the procurement of the waste contract would also be involved in its management.

The learning opportunities provided by the PFI experience were outlined. Interpretation of the contract was considered a key issue. Documentation of every stage of the process, especially dialogue sessions and the adjustment of bid prices and ensuring scope was agreed and understood by all parties were fundamental. Understanding what responsibilities remain with council and which were transferred to the provider was considered key.

Members were reminded of the process of raising complaints with the highways service provider. Island Roads procedures should be used in the first instance for members reporting problems. The council's complaints procedure should be used only if the provider's procedure has failed to resolve the issue.

Members were advised that there had been a proposed reduction to the risk rating for the contractual relationships risk as the issues relating to the Highways PFI had been identified and legal proceedings started.

The Business improvement Manager highlighted to the Committee that the issues raised by the PFI contract illustrated how important it was that for each contractual relationship, the council needs to understand how risk was to be apportioned between the council and its contractors.

RESOLVED:

THAT the responses be noted.

19. **[External Auditor's Annual Audit Letter](#)**

The committee considered the letter from the external auditors which concluded the audit work for the financial year 2014-15. Detailed auditor's findings had been presented to the committee when it met in September 2015. The matters reported in the letter were considered the most significant for the council.

The auditors advised that, following the committees approval, an unqualified opinion had been issued on the Council's accounts and the Isle of Wight

Pension Funds accounts. An unqualified value for money conclusion had also been made.

The financial pressures and the scale of the challenge faced by the council were considered the most significant risk and it was noted that the council had identified the financial pressures as a key risk. The key concerns raised were:

- Ongoing central government reviews of funding.
- Use of reserves to manage financial pressures.
- Risk of officer capacity becoming over stretched.

The themes for the 2015/16 audit were outlined as follows:

- Operational and officer changes affecting Pension Fund administration
- Changes to the requirements to account for the Highways Network Assets (formerly Transport Infrastructures Assets)
- Department for Communities and Local Government change to the date of financial statements.

Members were advised that the annual report and accounts for the harbours was incomplete and the certification of claims and returns (housing) had been submitted by the deadline and was expected to be presented to the committee at its next meeting.

Discussion took place regarding the transformation and savings programmes. Members were reassured the auditors had reviewed the proposals and concluded the appropriate plans were in place. The processes to identify savings would be subject to review during the continued monitoring of financial and savings strategies.

Members were updated on the staffing situation relating to pension fund administration. Members were advised that a Pensions and Payroll Lead Officer had been engaged. The appointee had significant experience of private sector pensions and knowledge of fire pensions and there would be a two month handover period for the transfer of knowledge.

RESOLVED:

THAT the External Auditor's Annual Audit Letter be noted.

20. **[Procurement Monitoring Report for the Half Year 1 April 2015 to 30 September 2015](#)**

The Head of Legal Services and Monitoring officer outlined the council's procurement activity from 1 April 2014 through 31 March 2015.

Members noted an increase in the number of lettings strategies considered by the procurement board and a significant decrease in the number of waivers.

The committee was also advised that the procurement board had been suspended to facilitate a project to review the procurement function due to

resource limitations within the procurement team. Reassurance was provided that there was a strict approval process for price variations and waivers and the Procurement Board would still meet if the need arose. The audit committee would also continue to receive monitoring reports.

Discussion took place surrounding the review of the process, for which a comprehensive outline was provided. It was expected the review would result in a more effective service. Standardised terms and conditions and increased use of the e-tendering system were expected to help create efficiencies. It was hoped the review process would be completed mid-2016. Members requested the Committee receive a presentation of the results of the review when it had been concluded.

Officers agreed to provide members with details of the adult social care waivers detailed in the report.

RESOLVED:

- (i) THAT the report be noted
- (ii) THAT details of the adult social care waivers in the period be provided.
- (iii) THAT a presentation on the results of the procurement process review be received.

21. **Reports of the Business Improvement Manager**

(a) **The Council's Risk Profile**

The following ten risks were highlighted.

- Insufficient Financial Resources and viability of the council.
- Insufficient staffing capacity and skills.
- Failure to provide effective arrangements to prevent incidents of abuse of vulnerable adults.
- Educational Attainment.
- Failure to identify and effectively manage situations where vulnerable children were subject to abuse.
- Failure to secure the required outcomes from the integration of Adult Social Care and Health.
- The council failed to achieve the required outcomes from its significant contractual relationships and failed to successfully resolve some anomalies in the contract's interpretation (in relation to the 25 year highways PFI contract).

- The risk that the islands economy fell further behind its mainland comparators and was unable to generate sufficient wealth to sustain the Island and its community.
- Achieving the Vision for the Island.
- The council failed to deliver its approved budget and there were insufficient reserves to meet the deficit.

The councils risk management practical guide and CIPFA's guidance on risk management were also provided. Concerns relating to the impact of resource on risk were considered.

Members noted that the controls associated with Navitus Bay associated with the risk "that the islands economy fell further behind its mainland comparators and was unable to generate sufficient wealth to sustain the Island and its community" was no longer relevant as the project had failed to obtain planning permission.

RESOLVED:

THAT the report be noted.

(b) Internal Audit Performance Report

The committee was presented with a report from the council's internal audit provider on the progress of the audit plan. Members were advised additional audit work had been undertaken on fraud and the Rural Broadband Project. The Property Assets Review had been postponed to accommodate the fraud review. Five internal audit executive summaries were provided:

- Fraud Risk Review
- Benefit Payments (Low Risk)
- IT Network Security (Medium Risk)
- Transformation Programme (Medium Risk)
- Delivering Differently in Partnership (Low Risk)

Discussion took place regarding the risk of fraud. The auditors had recommended the council update its counter fraud approach. However, capacity and funding were an issue. Therefore, the process would be strengthened through changes to organisational behaviour and culture rather than costly outsourced investigations.

The committee expressed concern regarding the impact of the universal credit on the council's services. Where previously landlords had received housing benefit payments for rent directly, there was a risk that rent arrears and eviction could result from tenants receiving the funds and not making rental payments. The council would then be required to house those individuals. Members were advised that the

housing associations were proactively addressing the risk. The impact relating to private tenants would need to be monitored.

Members expressed unease regarding the transformation programme and projected savings. They did not consider the savings programme robust and were concerned projected savings were not always achieved.

Reassurance was provided in relation to leavers retaining access to the councils IT systems. Members were advised that the access was only from council computers, on the secure network, inside council buildings and therefore the risk was minimal.

RESOLVED:

THAT the report be noted.

22. **Treasury Management Half-yearly Report**

The committee was provided with the half-yearly report detailing the progress on the treasury management policies, practices and activities for the financial year 2015/2016.

An update was also provided on the funds relating to the Asda receipt which were temporarily invested for three to six months with high street banks at a rate of 0.65% while the budget strategy group assesses capital investment proposals. The monies cannot be invested for longer as capital would be lost to withdrawal penalties if a decision was made to withdraw them early.

Confirmation was provided that council borrowing to fund the waste project was £80m over the life of the contract. The rate the council could achieve as a local authority represented significant savings and there was the possibility of additional income generation through treasury management. Members noted that the budget envelope per year funded both the service charge and repayment of the capital finance, including interest.

Reassurance was provided regarding the proposed investment in a solar farm to help establish a community energy scheme. The council had commissioned its own due diligence and would also benefit from the due diligence undertaken by Close Bothers, the senior debt provider, before investing. The investment had the support of the Capital Receipts Group and would be approved by Executive and Full Council in due course.

RESOLVED:

THAT the report be noted.