



Minutes

Name of meeting	AUDIT COMMITTEE
Date and time	THURSDAY, 18 FEBRUARY 2016 COMMENCING AT 10.00 AM
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Present	Cllrs Stuart Hutchinson (Chairman), Reg Barry, Ray Bloomfield, Colin Richards, Roger Whitby-Smith
Auditors Present	Simon Mathers, Helen Thompson (Ernst and Young) Dan Deacon, Geraint Newton (Pricewaterhousecoopers)
Co-opted (non voting) Member	Paul Wilkinson
Officers Present	Jennifer Beresford, Jo Thistlewood

23. **Minutes**

RESOLVED :

THAT the Minutes of the meeting held on [3 December 2015](#) be confirmed.

24. **Declarations of Interest**

There were no declarations received at this stage.

25. **Reports of the External Auditor**

a) **External Auditor – Council Audit Plan 2015-16**

The plan for the external audit of the council's accounts ending 31 March 2016 was presented. The audit plan for the council's pension fund would be presented at the May 2016 meeting.

The auditors identified the "Risk of Management" override as significant risk to the council's financial statements and outlined their response. Members were reassured management override was identified in every audit undertaken and was not unique to the Isle of Wight Council.

Three non-significant risks were also identified:

- Island Roads Private Finance Initiative (PFI)

Formal Dispute proceedings began at the end of 2015. Developments would be monitored for impact on the financial statements and value for money conclusions.

- New waste management contract

The contract contained no private finance element. However, the council considered the contractual arrangements for the waste contract constituted a service concession arrangement in accounting terms. Therefore, the auditors would consider the determination and the financial models prepared by both the contractor and the council.

Members were reassured there was no concern regarding the affordability of the borrowing linked to the waste contract as the cost of borrowing was built into the budget for the contract, against which a saving was anticipated. The facilities built as part of the contract would have a useful life for up to 15 years after the end of the contract.

- Minimum Revenue Provision (MRP),

The council had proposed changes to the historic basis on which it had charged MRP and its future approach to calculating the provision. The auditors had commissioned an expert to review the changes proposed.

In relation to the Value for Money assessment, the auditors identified a single significant risk; that “the council would not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions”. The contention relating to the council’s ability to set a legal budget for 2017/18 was acknowledged.

The auditors would look at comparative data from similar councils to assess value for money. Budget assumptions would also be evaluated and progress on alternative solutions, such as devolution, would be considered.

Discussion took place regarding the council as a growing concern. Senior management and those charged with governance would make the initial decision during the certification of the annual statements. The auditors would assess the risks to value for money. The audit report could be used to support the council’s bid for additional funding but the auditors themselves were impartial and could not proactively participate.

RESOLVED :

THAT the committee note the contents of the auditors plan for the audit of the councils 2015-16 accounts

b) [External Auditor's Certification of Claims and returns Annual Report 2014-15](#)

The committee considered the external auditors annual report on the certification of claims and returns. The report outlined the checked and certified housing benefits subsidy claim as central government has determined fewer grants would be included in the scope.

The value of the claim presented for certification was £52,583,405. As a result of testing the subsidy claim was increased by £265. A further three errors were identified which would be corrected in the benefits system and reflected in future years subsidy. Regardless of the value of the errors found, a qualification letter would be issued reflecting the actions to be implemented to avoid similar errors occurring in the future. Members were reassured that a qualification was not unusual in these reports.

Clarification was provided that the council's policy was to seek remuneration for overpayments where it was cost effective to do so regardless of the source of the error.

A named vote was taken the result of which was as follows:

For (5):

Councillors Reg Barry, Ray Bloomfield, Stuart Hutchinson,
Colin Richards, Roger Whitby-Smith

RESOLVED :

THAT the committee accept the annual report on the certification of the claims and returns for 2015-16

26. Reports of the Technical Finance Manager

a) [Treasury Management Strategy 2016-17](#)

The committee reviewed the Treasury Management Strategy 2016-17. The strategy outlined the council's approach to borrowing and repayment of external debt.

Discussion took place around the ring fencing of the Asda receipt. Members were advised the allocation was a political decision. While a long term strategy which would produce revenue was agreed, the money was being invested short term within the bounds of the treasury management strategy.

Reassurance was sought regarding the increased risk to the council from the 2015 bail-in legislation. Members were advised that the strategy protected the council from the risk of bank bail-in by investing elsewhere when possible. Any short-term investments were made according to the ratings, amounts and durations recommended by Arlingclose, the council's treasury management advisers. Overall, the council had little surplus cash therefore their risk in this area was low.

A named vote was taken the result of which was as follows:

For (5):

Councillors Reg Barry, Ray Bloomfield, Stuart Hutchinson,
Colin Richards, Roger Whitby-Smith

RESOLVED :

THAT the committee recommend that council, as part of the budget strategy considerations, agree the Treasury Management Strategy for 2016-17

b) [Internal Audit Plan 2016-17](#)

During discussion Councillor Colin Richards declared an interest as a governor at Newchurch Primary School.

The internal audit plan for 2016-17 was presented to committee for approval. The plan outlined the audit universe, the risk assessment methodology underpinning plan, and how the audit resource was directed to meet those risks. Other reviews which added value were also proposed.

Members requested information relating to the plans for future years to have a clearer idea of coverage. It was agreed the auditor's multi-year plan would be provided to the committee.

The committee's attention was drawn to the resource allocated to "TrAction", a tool provided by PwC to monitor and follow-up the recommended actions from internal audit reviews. The additional resource would allow the auditors to manage actions resulting from the audit reviews, past and present. The allocation was optional but it was felt effective follow-up would add value to all the auditors work.

Further information was requested in relation to the audit of procurement. Members were advised the size and scope of the audit had not yet been determined. It was expected the audit would be carried out towards the end of quarter two.

Clarification was sought regarding the auditing of federated schools, specifically Nettlestone and Newchurch Primary Schools. Members were advised that the financial arrangements determined if a school would be audited separately or in conjunction with another school.

Federation schools with standalone financial arrangements would still require separate audits, which would be established during the scoping process for future reviews.

The committee suggested that the audit of the highways PFI include checks that the amounts repaid following the formal dispute proceedings were appropriate. It was confirmed the committee would be consulted during the scoping of the review.

A named vote was taken the result of which was as follows:

For (5):

Councillors Reg Barry, Ray Bloomfield, Stuart Hutchinson,
Colin Richards, Roger Whitby-Smith

RESOLVED :

THAT the committee approve the 2016-17 Audit Plan.

c) [The Council's Risk Profile](#)

The following nine risks were highlighted.

- Lack of financial resource and the ability to deliver the council's in-year and medium term budget strategy (Red).
- Insufficient staffing capacity and skills (Red).
- Failure to provide effective arrangements to prevent incidents of abuse of vulnerable adults (Amber).
- Educational Attainment (Amber)
- Failure to identify and effectively manage situations where vulnerable children were subject to abuse (Amber).
- Failure to secure the required outcomes from the integration of Adult Social Care and Health (Red).
- 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) (Amber).
- 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 (Red).
- Achieving the Vision for the Island (Red).

The committee was advised that two of the risks reported at previous meetings had been merged due to their similarity: “Insufficient Financial Resources and viability of the council” and “The council failed to deliver its approved budget and there were insufficient reserves to meet the deficit”. The new risk was considered a high risk and difficult decisions would need to be made to meet the savings proposed. Additional deep dive reviews would be undertaken in an effort to strengthen the case to central government for additional funding.

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.

d) [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. Two executive summaries were presented; Value for money which was reported as medium risk and Local Taxation which was considered low risk.

Audits had also been completed on the following schools, all of which were considered medium risks with the exception of Nine Acres Primary School which was a low risk:

- Brading CE Primary School
- Brighstone CE Primary School
- Nettlestone CE Primary School
- St Helens CE Primary School

Members’ attention was drawn to the statistics (draw from the TrAction system) relating to agreed actions from audits which had been completed. Over 30 actions remained open from the 2012/13 audit period and there were a high number of actions pending from 2014/15. In many cases, the officers assigned the actions had left the council. Members were reminded that it was possible the actions had been completed but the system had not been updated. The audit plan proposed resource was allocated to the auditors for following up on actions to address the issues.

An update was also provided on the audits which had been delayed from quarter one and quarter two of 2015-16:

- Adult Safeguarding
- Destination Management Organisation (report would be presented at the next meeting)

- Economic Development
- Waste

Discussion took place regarding the council's investment in the solar panel energy farm. The internal auditors had undertaken due diligence on the project, outside the scope of the internal audit contract. The project was proceeding and the lead investor had released their funds. The next steps would be the community share options and the council's funding.

Clarification was provided in relation to the review of the Procurement Board. The process was ongoing and part of a larger review of the procurement function. Reassurance was provided that there was still an approval process which considered value for money if thresholds were exceeded. Officers agreed further information would be presented at the next meeting.

RESOLVED :

THAT the report be noted.

CHAIRMAN