



Minutes

Name of meeting	AUDIT COMMITTEE
Date and time	MONDAY, 13 MARCH 2017 COMMENCING AT 2:00 PM
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Present	Cllrs Reg Barry (Chairman), David Eccles, Phil Jordan, Roger Whitby-Smith
Auditors Present	Helen Thompson, David White (Ernst and Young) Dan Deacon, Geraint Newton (Pricewaterhousecoopers)
Co-opted (non voting) Member	Vacancy
Officers Present	Jennifer Beresford, Jo Cooke, David Martin, Claire Shand, Chris Ward

33. [Minutes](#)

RESOLVED :

THAT the Minutes of the meeting held on [5 December 2016](#) be confirmed.

34. **Declarations of Interest**

There were no declarations received at this stage.

35. [Reports of the council's external auditor](#)

The committee considered the reports of the council's financial auditor, Ernst and Young:

(a) [Isle of Wight Council – Year ending 31 March 2017 - Audit Plan](#)

The plan for the external audit of the council's accounts ending 31 March 2017 was presented. Members were advised there had been no changes to the work required under the audit code of practice or the local audit accountability act.

The plan identified two significant risks and outlined the auditor's response:

- *Risk of management override (as significant risk to the council's financial statements).*

Members were reassured management override was identified as a standard risk in all audit plans. The audit approach was designed to reduce that risk to an acceptable minimum.

- *Progressing the delivery of a sustainable medium term financial plan" (a significant value for money risk).*

The council continued to face significant financial challenges including the level of savings required to keep the council's reserves at the minimum required levels. These challenges were considered more significant than those faced by other councils. The focus of the audit included:

- The 2016/17 overrun against budget
- Progress in setting a balanced budget and identifying the required savings
- Reviewing the robustness of the most recent medium term financial strategy
- Reviewing progress against key developments noted from the 2015/16 value for money conclusion

Discussion took place regarding the Isle of Wight Council's position in comparison to statistical neighbours. Members were advised that Value for Money Profiles from other councils were used during planning and could be used to inform a report back to the committee. Benchmarking had also been used to inform the budget strategy and should be considered in relation to the Value for Money Profiles to ensure consistency.

Members expressed concern that, following the publication of the Hearn report, the strategic plan on which the audit work was based was overly optimistic in terms of employment and economy. Reassurance was provided that the other sources of assurance had been taken into account during planning.

(b) Certification of Claims and Returns Annual Report 2015-16

Members reviewed the external auditor's annual report on the certification of claims and returns which reported on the certified housing benefits subsidy claim.

The auditors advised the approach taken was prescribed. Sampling of rent allowance cases with income identified a number of errors and additional testing was required. The value of the errors extrapolated totalled £220. This was a very small percentage of the £51,058,157

subsidy claimed. Details of the errors found would be detailed in the qualification letter. Members were reassured that due to the complexity of the housing benefit regime, it was expected some errors would be found.

The fee charged was £14,711. Members were advised this was 25% reduction compared to last year as it reflected the closure of the Audit Commission. It was highlighted that a new auditor would need to be appointed for 2018/2019.

(c) Isle of Wight Pension Fund – Year ending 31 March 2017 - Audit Plan

The plan for the external audit of the Isle of Wight Pension Fund ending 31 March 2017 was outlined. The Risk of Management override was the only significant risk identified. Members were reassured management override was identified as a standard risk in all audit plans.

RESOLVED :

THAT the reports be noted.

36. Reports of the council's co-sourced internal audit provider

(a) [Isle of Wight Council Internal Audit Risk Assessment and Plan 2017/18](#)

The internal audit plan for 2017-18 was presented to committee. 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.

In response to a question regarding the impact of the Solent Devolution Deal on the audit plan, members were advised that planning took into account a breadth of issues so whilst there would have been no specific impact it would have been considered. It was acknowledged that further changes could impact on the risks the council faced.

RESOLVED :

THAT the report be noted.

(b) [Final Audit Committee Internal Audit Progress Report](#)

The committee was presented with a report from the council's internal audit provider on the progress of the audit plan. Two internal audit executive summaries were provided:

- Building Control (Low Risk)
- Fostering (Medium Risk)

The savings generated by the recruitment of in-house foster carers were discussed. Independent foster agencies cost around £50k per child where as an in-house carer cost around half that. As a result Children's Services were forecasting an underspend of around £300k. Reassurance was provided that no child would be placed at risk as a result of the savings and in many case the use of a local foster carer was better for the child.

Concerns were raised around potential foster carers withdrawing from the recruitment process as a result of record keeping issues and delays in DBS checks. Members were advised that record keeping was a corporate cultural issue not just isolated to the council. However, the auditors had drawn up a set of recommendations to address the shortfalls in the DBS process. It was expected the target set for the recruitment of new foster carers would be met.

RESOLVED :

THAT the report be noted.

37. **Approval of Treasury Management Strategy**

The committee considered the Treasury Management Strategy for 2017/2018 and proposed changes to the 2016-2017 strategy.

The strategies outlined the council's approach to short term and long term borrowing, the lending strategy and policy on setting aside funding for repayment of external debt.

Members were advised that the council had an underlying need to borrow to fund capital finance decisions. The strategy used internal reserves to defer borrowing unless long term borrowing rates rose.

The changes to the 2016/2017 strategy embedded the debt repayment holiday, approved by council, in formal policy. The recommendations also changed the way in which money was set aside to repay borrowing.

In terms of lending, the report suggested the strategy be widened to ensure there were sufficient parties, to accommodate the proposed £100m property acquisition fund, as there could be a need for interim investment of funding if not used immediately. Any parties used for this purpose would need to be on a sound financial footing to minimise the risk of default.

Discussion took place regarding the £100m property acquisition fund. Members were assured that the Treasury Management Strategy was not seeking to approve the £100m Property Acquisition Fund but that the Strategy was designed to accommodate the £100m fund, should it be approved by the Council at a future meeting. Members expressed concern regarding the investment properties losing value but were reassured that the planned approach would seek to retain a reserve 30% of the turnover of the fund and that the strength and diversity of the portfolio would minimise the risk of exposure to turbulence in the property market. It was expected much of the

investment would be on the mainland as properties would be selected where returns were greatest and covenants were strongest.

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

For (4): Cllrs Reg Barry, David Eccles, Philip Jordan, Roger Whitby-Smith

RESOLVED :

- (a) THAT the council be recommended to agree the following changes to the 2016-17 Treasury Management Strategy:
- (i) that the minimum revenue provision for the repayment of government supported borrowing, other than finance leases and service concessions (including private finance initiative schemes) is changed from a straight 2% annual provision to a 50 year annuity provision with effect from 2016-17 (paragraph 4 Appendix D of Treasury Management Strategy).
 - (ii) that with regard to capital expenditure loans to third parties the principal element of the repayment is set aside to repay the borrowing that has financed these assets (paragraph 6 Appendix D of Treasury Management Strategy)
 - (iii) that with regard to the purchase of investment properties – such properties will be disposed of before there is a significant consumption of the asset, and that the council provides for the repayment of the borrowing undertaken for their purchase by setting aside the capital receipt on their disposal rather than providing a revenue provision.
 - (iv) that the maximum investment in a single Local Authority will be increased from £4m to £10m
 - (v) that the maximum investment that can be made into any one organisation (other than the UK Government including Local Authorities) be increased from £4m to £8m
- (b) THAT the council be recommended to agree the Treasury Management Strategy for 2017-18.

38. **The Council's Risk Profile**

The Senior Project Officer, Programme Management, presented the report highlighting the following ten risks which were linked directly to the corporate plan:

- 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)

- Educational Attainment (Amber)
- Failure to provide effective arrangements to prevent incidents of abuse of vulnerable adults (Red).
- 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 – reduced).
- 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).

Discussion took place regarding the “Failure to provide effective arrangements to prevent incidents of abuse of vulnerable adults”. Further information was sought regarding the Adult Social Care directorates review of its safeguarding arrangements and corresponding action plan. It was agreed an update regarding the plan would be sought and provided to the committee. Clarification was also sought regarding how additional funding for adult social care would impact the audit system and were advised it would be considered a mitigating factor.

RESOLVED :

THAT the report be noted.

CHAIRMAN