



Minutes

Name of meeting	AUDIT COMMITTEE
Date and time	MONDAY, 4 DECEMBER 2017
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Present	Cllrs Adrian Axford (Chairman), Paul Fuller, Julie Jones-Evans, John Kilpatrick, Chris Quirk, Brian Tyndall
Auditors Present	Dan Deacon, Geraint Newton (Pricewaterhousecoopers) David White (Ernst and Young)
Officers Present	Jennifer Beresford, Elizabeth Goodwin, Hayley Holden, Kerry Hubbleday, Bill Murphy, Wendy Perera, Jo Thistlewood
Apologies	Cllr Reg Barry

17. [Minutes](#)

RESOLVED :

THAT the Minutes of the meeting held on [25 September 2017](#) be confirmed.

18. **Declarations of Interest**

There were no declarations received at this stage.

19. [Isle of Wight Council and Pension Fund Annual Audit Letter for the year ended 31 March 2017](#)

The committee considered the letter from the external auditors which concluded the audit work on the Isle of Wight Council and Isle of Wight Pension Fund accounts for the financial year 2016-2017. Detailed auditors findings had been presented to the committee when it met in September 2016, and there had been no changes since that date.

The auditors advised that, following the committee's 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 issued. In relation to the Council's whole of government accounts, there were no significant matters to report.

It was expected the report on 2016/17 housing benefits certification work would be issued in December 2017. There had been minor errors but this was expected due to the complexity of the system and the claim had been accepted by the Department of Work and Pensions.

Clarification was sought regarding the steps taken to mitigate the significant risk in relation to management override controls. Members were advised the risk was standard on all audits and not particular to the Isle of Wight Council or pension fund. In addition to a high level assessment of the council's counter fraud arrangements, an outline of the processes used by the auditors to test for management override was provided.

In response to questions relating to IFRS 16 Leases and the impact of the new standards, the auditors advised until the 2019/20 accounting code was issued detail could not be confirmed. It was unclear what exemptions would apply to Local Authorities; however, the impact of the changes on the council was not expected to be significant as they held a limited number of operational leases.

RESOLVED :

THAT the external auditor's letter be noted.

20. **[Audit Committee Internal Audit Progress Report](#)**

Members were presented with a report from the council's co-sourced internal audit provider, Pricewaterhousecoopers (PWC) summarising the activities undertaken between June and December 2017. Field work on all quarter one and two reviews had been completed. Three internal audit executive summaries were considered: IT Governance and Asset Management (Medium Risk), Recruitment (Low Risk) and Development Management (Low Risk). In relation to Recruitment, members were reassured the auditors had no significant concerns in relation to how Human Resources was operating in this area.

A verbal update to assess the progress of actions stemming from the 2016/17 high risk Highways PFI and Pan Development reviews was provided. The Head of Place and Head of Contract Management attended the meeting to address member's questions in relation to the actions.

Concern was expressed that Godric's Road, which would link to Pan Lane, remained incomplete but work had begun building phase three of the development. Members were advised the situation was very complex. Completion of the road was required by the planning permission, however, since the council was both the land owner and the planning authority, enforcement action could not be taken as action cannot be taken against yourself. Officers planned to meet the week commencing the 4 December 2017 to discuss options as landowners. The developer had ceased work as requested. It was expected a report would be presented to the committee at its February 2018 meeting confirming the actions addressing the auditor's findings had been completed. Further assurance would need to be sought from officers if evidence had not been provided.

The key audit issue in relation the Highway's PFI was that not all processes had been documented and therefore it was difficult to provide evidence of contract management activities to the auditors. Members were reassured that a project management resource would shortly be to manage this process. Data would be stored in a central location. Reassurance was also provided that whilst processes could not be demonstrated there was no uncertainty regarding contract management activity and quality checks being undertaken. These were robust examples of evidence to support this and an example of recent work undertaken by Island Roads that was not to an acceptable standard. Members requested the action plan to address the issues raised in the audit report be provided.

RESOLVED :

- (i) THAT the report be noted.
- (ii) THAT a PFI contract audit findings action plan be provided to the audit committee.

21. [Procurement Activity Report for the Half Year 1 April 2017 to 30 September 2017](#)

The committee received a high-level overview of the council's procurement and contract monitoring activities from 1 April through 30 September 2017 inclusive. The report detailed the progress of the new contract monitoring function and the contracts initiated and completed. From 1 January 2018, key performance indicators for all contracts would be held centrally.

Discussion took place regarding expertise for bespoke projects within the team. The procurement team ensured compliance with public procurement rules and also with councils standing orders. The service areas or commissioners responsible for the service specify the contracts with external support being sought when necessary for significant contracts. The method by which external expertise was procured ensured its quality.

The committee welcomed the overall decreases in waivers, however concern was raised that certain services which were significant in terms of budget and impact on service users, were still being let through waivers. Reassurance was provided that in the case of occupational therapy, the service area was close to finalizing the specification.

Questions were raised regarding the waivers relating to telephony. Support and licenses could only be obtained through the system provider. A full review of the system was underway and the needs of the council and options available were being evaluated.

In relation to monies spent on sustainable transport, members were advised funding was from the Local Sustainable Transport Fund and contracts were managed within the service area.

Concern was expressed in relation to the delay in the publication of an online forward plan of proposed procurements to promote future contract

opportunities in support of local economies. Data had been produced and analyzed but required cleansing before it could be published. Reassurance was provided that local businesses were not missing opportunities as they could still access the contracts database register on the e-tendering system and be notified of tenders.

RESOLVED :

THAT the report be noted.

22. **Annual Fraud, Irregularity & Whistleblowing Report 2016-17**

The Chief Internal Auditor presented the report which informed the committee of incidents of fraud and irregularity experienced by the council during the period 1 April 2016 to 31 March 2017. It was noted that cases which were open could not be reported. No cases of fraud were reported in the period. Three instances of whistleblowing were reported and addressed through standard procedures.

In April 2017 the council entered into a shared arrangement for the statutory role of Chief Internal Auditor (CIA) with Portsmouth City Council which included supporting the council in its counter fraud arrangements. It was hoped progress on the work undertaken could be reported to the committee.

RESOLVED :

- (i) THAT the report be noted.
- (ii) THAT the Committee receive updates on anti-fraud and corruption actions throughout the committees reporting cycle and the item be added to the committees work plan.

23. **Half Yearly Treasury Management Report**

The Technical Finance Manager provided the committee with a half-year report detailing the progress on treasury management policies, practices and activities for the financial year period ending 30 September 2017. The report was provided in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice.

Attention was drawn to the changes to the CIPFA Prudential and Treasury Management codes which were expected to be published in January 2018. The Department for Communities and Local Government was also consulting on changes to guidance which would come into effect in April 2018. These changes would impact on the treasury management strategy.

The European Markets in Financial Instruments Directive (MiFID II) also impacted on the council as it would change how local authorities were treated by regulated financial services firms. Local Authorities were currently treated as professional investors but would be downgraded to retail clients as a result of the new directive. Whilst this provided additional protection it limited access to investments and the council was in the process of opting up to remain a

professional investor. It was expected this would be completed by the 3 January 2018 deadline.

RESOLVED :

THAT the Treasury Management Half-Yearly Progress Report be noted.

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

The committee considered the current position of the council's strategic risks. It was noted that while the risks remained the same the 2017-2020 corporate plan managed them in a different way. The risks and their ratings were:

- 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 (Amber)
- Failure to Improve educational attainment (Amber)
- Failure to identify and effectively manage situations where vulnerable children are subject to abuse (Amber)
- Failure to identify and effectively manage situations where vulnerable adults are subject to abuse (Amber)
- Failure to secure the required outcomes from the integration of adult social care and health (Amber)
- The council fails to achieve the required outcomes from its significant contractual relationships and fails to successfully resolve some anomalies in the contract's interpretation (in relation to the 25 year Highways PFI contract) (Amber)
- The risk that the Island's economy falls further behind its mainland comparators and is unable to generate sufficient wealth to sustain the Island and its community (Red)
- Achieving the vision for the Island (Red)

Members question if the target for the "Insufficient staffing capacity and skills" risk would be reduced as it had been met. They were advised the rating and the target were both under review. In relation to mental health it was noted that significant work was being undertaken around known issues but the work was confidential due to its nature. There was increased awareness of mental health challenges across the organisation and signposting to support needed was in place.

RESOLVED :

THAT the committee approve the councils risks.

25. Future Internal Audit Arrangements

Representatives from PWC and Portsmouth City Council had an interest in the item and left the room.

Members received a report which reviewed and evaluated the existing internal audit service, specified by the council and provided by PWC, against potential alternative arrangements. Three options were presented.

- (a) The agreement with PWC be extended for a further period.
- (b) A combined arrangement of insourced support supported by Portsmouth City Council under a shared service provision for internal audit
- (c) The council goes out to tender to procure an internal audit service.

It was recommended a combined arrangement with Portsmouth City Council be undertaken. Among other benefits, a combined arrangement was considered to be more flexible and expected to allow for significantly increased audit coverage.

The committee expressed concern that the Section 151 Officer whose report they were considering was also the Section 151 officer for Portsmouth City Council with whom it was recommended joint arrangements were undertaken and how this would be perceived. The deputy monitoring officer advised the Section 151 officer was supported by other financial officers and it was part of his professional responsibility to manage conflicts of this type.

The chairman brought to the committee's attention that PWC had sent a detailed rebuttal to issues raised in the report to officers which had not been shared with members prior to the meeting.

Members discussed if the new information should be considered by the committee prior to any decision being made and it was agreed PWC's response should be considered before a decision was made. The best method for considering the additional information was explored and it was agreed, rather than holding an extraordinary meeting, that the contract with PWC should be extended by a year.

RESOLVED :

THAT the agreement with Pricewaterhousecoopers be extended for a period of one year

CHAIRMAN