



Minutes

Name of meeting	AUDIT COMMITTEE
Date and time	MONDAY, 19 FEBRUARY 2018
Venue	COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT
Present	Cllrs Adrian Axford (Chairman), Reg Barry, Paul Fuller, Julie Jones-Evans, Chris Quirk, Brian Tyndall
Cabinet Members Present	Cllr Stuart Hutchinson (Deputy Leader and Cabinet Member for Resources)
Auditors Present	Dan Deacon, Geraint Newton (Pricewaterhousecoopers) David White, Helen Thompson (Ernst and Young)
Co-opted (non voting) Member	Vacancy
Officers Present	Jennifer Beresford, Elizabeth Goodwin, Kerry Hubbleday, Dave Martin, Bill Murphy, Claire Shand, Jo Thistlewood
Apologies	Cllr John Kilpatrick

26. [Minutes](#)

RESOLVED :

THAT the Minutes of the meeting held on 4 December 2017 be confirmed.

27. [Declarations of Interest](#)

There were no declarations received at this stage.

28. [Reports of the External Auditor](#)

(a) [External Audit - Isle of Wight Council Audit Planning Report](#)

The plan for the external audit of the council's accounts ending 31 March 2018 was presented. Members were advised the work required and planned remained broadly the same. The significant risks and areas of audit focus identified in the plan were highlighted by the auditor and the rationale for these explained. These were:

- *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 due to the unique nature of managements position. The audit approach was designed to reduce that risk to an acceptable minimum.

- *Valuation of Land and Buildings, PFI Accounting and Pensions Liability Valuation*

There was no change to the risk in these areas but due to the high degree of estimation involved in the accounting they would be an area of audit focus.

- *Restatement of Comprehensive Income and Expenditure Statement (CIES) and supporting Expenditure and Funding Analysis (EFA)*

This was a new risk. The council has restructured its portfolios and changed its internal reporting structure. Therefore, as result of changes to the Chartered Institute of Public Finance Accountants (CIPFA) code the ECIE and EFA must be restated

The committee were advised that materiality was £3.88m which represented 1% of the 2016/17 gross service expenditure and would be updated when the draft accounts were produced.

Regarding the value for money conclusion, members noted there had been no change to the criteria. Sustainable resource had featured as a risk in external audit plans for a number of years, though good progress had been made in a number of key areas linked to the council's medium term financial strategy this remained the case.

Fees for the year were based on the scale set by Public Sector Audit Appointments Ltd (PSAA) and reflective of the level of work carried out in 2016/17.

RESOLVED:

THAT the committee confirm their understanding of materiality as presented in the External Audit Plan for 2017/18.

(b) External Audit Plan Audit Plan – Isle of Wight Council Pension Fund

Members considered the plan for the external audit of the Isle of Wight Council Pension Fund ending 31 March 2018. The risk of management override was the only significant risk identified. Members again were reassured management override was identified as a standard risk in all audit plans.

The committee were advised that materiality was £11.2m which represented 2% of the funds £559.5m net assets and was fairly typical. It was noted there was an error on page C9 of the report (attached to and forming part of these minutes) which incorrectly stated the fund's net assets were £59.5m.

Fees for the year were based on the scale set by Public Sector Audit Appointments Ltd and reflective of the level of work carried out in 2016/17.

Members were asked to note the change to the statutory deadline for the publication of the council and pension funds accounts. The council would be required to submit their work by 31 May, a month early and the auditors by 31 July, two months early. As a result it had been necessary to strictly schedule the 2017/18 audits and any audit which could not be completed due to missing of documents would be pushed to the end of the period.

Discussion took place regarding the implications of publishing the accounts late or as unaudited accounts; while there were no specific penalties, there was a risk of reputational damage to the council.

Clarification was provided that the fund's involvement with the ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool would not impact on the audit methodology. The fund remained the council's responsibility and it was the ownership of investments which had changed.

RESOLVED:

THAT the committee confirm their understanding of materiality as presented in the External Audit Plan for 2017/18 based on net assets of £559.5m.

(c) **Certification of claims and returns annual report 2016-17**

The committee reviewed the external auditor's annual report on the certification of claims and returns reported on the certified housing benefits subsidy claim in draft on 30 April 2017.

The auditors advised the methodology was prescribed by PSAA and the Department of Work and Pensions. The process did not include materiality and any error over a penny must be followed up. Members were advised 20 claims were tested. If any errors were found then an additional 40 cases were examined but testing was only on the areas in which errors had been revealed.

The initial sampling had revealed errors in rent allowances/earnings, fixed penalties and rebates. The value of the errors in rent allowances was extrapolated in the draft report. The reporting of fixed penalties and rebates within the subsidy was adjusted to correct the errors found in

these areas. It was noted that there was no change to the subsidy claim and claims had been moved from one reporting area to another. Members were reassured that due to the complexity of the housing benefit regime, it was expected some errors would be found. It was also noted that the benefits team had processes in place to limit errors and the Cabinet Member for Resources received monthly reports from the benefits team on this.

The fee charged reflected the previous two years as no additional work had been required.

It was highlighted that a new auditor would need to be appointed for 2018/2019 and discussion took place regarding the appointment, the deadline for which had initially been 28 February 2018 but was now uncertain. It was agreed members would be provided with an update on the appointment of a new certification of claims auditor.

RESOLVED:

THAT the committee receive an update on the appointment of an auditor for the certification of the 2018/19 grand claims.

29. **Audit Committee Internal Audit Progress Report**

The Chief Internal Auditor declared an interest as the Chief Internal Auditor for both the Solent Local Enterprise Partnership and Portsmouth City Council who were the chief financial body for the Solent Local Enterprise Partnership (SLEP).

The Internal Audit Progress Report from the council's co-sourced audit provider was presented. The report provided a summary of the activities of Internal Audit for the period December 2017 to February 2018 including Adult Social Care Contracts (Medium Risk), Business Continuity (Medium Risk), Benefits Payments and the Pan and PFI follow-up.

Discussion took place regarding the contract management of the PFI. Members were assured that member's boards had been set-up to review of the waste contract, the Highways Improvement Partnership (previously referred to as PFI) and Regeneration to help ensure robust political management of significant contracts. A Harbour Committee would also be proposed at full council on 28 February 2018 to provide political oversight in that area.

It was noted that problems with the delivery of the pan development project continued; the spine road was not yet completed and the enforcement of the requirement for the installation of the biomass heating plant was being reviewed due to the expected cost to residents.

Members expressed concern regarding cultural issues in relation to significant contracts and suggested that the management of the Floating Bridge contract be included in the internal audit plan for 2018/19 as it is a perceived area of risk, particularly as SLEP funding placed certain requirement as on the level of service provided by the vessel.

RESOLVED:

THAT the committee recommend the ongoing contract management arrangements in relation to the Floating Bridge be included in the internal audit plan for 2018/19 as it is a perceived area of risk.

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

Members gave consideration to the report which detailed the current position of the council's strategic risks. 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 (Red)

Progress had been made addressing the challenges faced by the service, such as reducing the high number outstanding deprivation of liberty assessments and issues around delayed transfers of care. However, the risk rating had been increased by the Director of Adult Social Care following poor assessment results. A high number of safeguarding concerns were also being recorded. It is expected the risk would reduce in May 2018.

- Failure to secure the required outcomes from the integration of adult social care and health (Amber)

Progress was being made against this risk following the introduction of Multi-Agency-Safeguarding Hub meetings which were well attended by partners allowing faster decision making.

- 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 expressed concern that regeneration activities were creating a vacuum in staffing capacity in other areas of the council. Capacity would be assigned on a project by project basis. It was recognised that appointments would need to be made in areas of high activity, for example around housing.

RESOLVED:

THAT the council's strategic risks be approved.

31. **Annual Governance Statement (AGS) and progress update against previous AGS issues**

The Head of Resources provided members with an oral update on progress against the Annual Governance Statement approved in September 2017, specifically the five key areas with significant governance failures in 2016/17:

1. The council's customer contact interface, transparency and accessibility and increased participation.

Targets around answering calls within 90 seconds were being met. The website was being reviewed with work on high traffic areas such as customer contact being prioritized. User groups were being engaged to assist with this work.

2. Member Support (including learning and development)

An extensive induction programme had been provided in May 2017. A Cabinet training needs analysis had been undertaken and regular all member seminars were timetabled throughout the year on the first Monday of the month.

3. Workforce development plan, behaviours framework and cultural change strategy refresh.

Preparation work was under way. A member survey had been undertaken to provide benchmarking and the Chief Executive had launched the BIG action plan.

4. Independent review of the council's strategic plans, priorities and corporate governance arrangements and proposed future plans.

A peer review had been undertaken and the report had now been received. Cabinet would be provided with a supporting action plan shortly.

5. Review of the council's strategic partnerships and governance arrangements.

The Children's Services partnership with Hampshire had been reviewed. A review of the Fire and Rescue Service was underway and it was expected a report would be sent to Cabinet and Full council for decision in March 2018.

Members questioned when they would have sight of the peer review report. The report had only recently been received by officers. It would be published shortly and all members would have the opportunity to consider it.

Discussion took place regarding the review of the Fire and Rescue Service and corresponding partnership arrangements. Assurance was provided that there was a firm commitment to brief members on the matter.

RESOLVED:

THAT the update on the Annual Governance Statement be 2017/18 be noted.

32. **Treasury Management Strategy Statement 2018-19**

The committee considered the Treasury Management Strategy Statement for 2018-19 which formed part of the council's overall annual budget strategy. The statement included a list of suitable borrowing sources to minimize the risk of unplanned borrowing.

Amendments had been made to the council's treasury management practices in accordance with revised CIPFA codes issued in December 2017. Revised guidance notes had not been issued, therefore the committee was also asked to consider authorising the Director of Finance and Section 151 to make amendments to the council's Treasury Management Practices in accordance with the revised CIPFA codes and government guidance.

RESOLVED:

- (i) THAT the committee recommend to Full Council that the Treasury Management Strategy Statement for 2018-19 be agreed
- (ii) THAT the Director of Finance and Section 151 Officer be authorised to make amendments to the council's Treasury Management Practices.

33. [Audit Charter and Code of Ethics](#)

The Chief Internal Auditor presented the Internal Audit Charter and Code of Ethics which the committee was required to approve under Public Sector International Audit Standards. The charter and code details the functions purpose and scope, authority, roles, responsibilities and reporting mechanisms. Clarification was provided that it was a standard document and there were no significant deviations of note.

RESOLVED:

THAT the committee approve the Internal Audit Charter and Code of Ethics as required under the under Public Sector International Audit Standards.

CHAIRMAN