



Minutes

Name of meeting	AUDIT COMMITTEE
Date and time	TUESDAY, 21 SEPTEMBER 2010 AT 6.00PM
Venue	COMMITTEE ROOM ONE, COUNTY HALL, NEWPORT
Present	Cllrs Wayne Whittle (Chairman), Reg Barry, Susan Scoccia, Ian Ward
Co-opted Members (voting)	Mr Garry Smith
Audit Commission	Kevin Suter, Kate Handy
Officers	Jon Baker, Dave Burbage, Andrew Carpenter, Jo Thistlewood, Ged Richardson, April Ross,
Stakeholders	Greg Rubins (Price Waterhouse Cooper)
Apologies	None

12. **Minutes**

The minutes of the previous meeting held on [29 June 2010](#) were reviewed.

RESOLVED:

THAT the minutes be agreed.

13. **Declarations of Interest**

None declared.

14. **Draft Work Programme**

Members reviewed the programme which gave an overview of the items which would be presented over the coming year. No items were outstanding and it was noted that any training would be provided as and when required.

RESOLVED:

THAT Draft Work Programme be noted.

15. **Audit Commission Reports**

The Audit Commission presented to member's two reports which, following a request from members at a previous meeting had been presented in a less complex arrangement in the format of a PowerPoint presentation. The following areas of audit activity were addressed:

15.1 Annual Governance Report 2009/10

The Commission provided members with a presentation which took into account Internal Control Issues and Value for Money.

With regard to Financial Statements, the Audit Commission agreed that there was an adequate internal control environment and expected to issue an unqualified opinion.

The report also highlighted some areas of findings around various risks identified and included, the issue of the lack of full completion of the bank reconciliation during the year and the risk of fundamental internal control not operating properly. These had been addressed and it was noted that full reconciliation had been completed as at 31 March 2010.

The findings around the risk of accounting treatment not being consistent with the Commission's initial view of the council's proposals regarding the cancellation of the Ryde Interchange / Gateway project were that accounting was consistent and that expenditure had been correctly treated as abortive capital expenditure, therefore impacting on Net Cost of Services and the general fund.

Members were advised that on Cut Off Procedures, Initial testing of a random sample from 2010/11 expenditure showed 25% (by volume) should have been within the 2009/10 accounts. It was therefore agreed with officers to select a further sample for the Council to review, as selected items did include small value expenditure items. A final error estimated at £0.3 million was subsequently extrapolated and the Audit Committee considered this as an unadjusted error.

The Committee was also advised that the actuary used the pension fund assets value as at 31 December 2009 rather than the end of the financial year which was £2m higher than the actual total value of assets at year end. As the Council was the major contributor to the fund this had resulted in an estimated overstatement of its share of assets by £1.95m and this was also reported as unadjusted error. It was noted that there would be no impact on council tax due to this finding.

On the area of Internal Control weaknesses, the Committee were advised that both issues reported on fixed assets (Valuation certificates for assets requiring manual handling and the implementation of the Valuation certificates for assets) had been addressed.

On the findings around VAT (no system in place to monitor required calculation of VAT partial exemption and periodic VAT returns not matching the VAT control accounts), members were assured that Accounts were aware and that actions were being carried out to rectify the situation.

The Committee was advised by the Strategic Director for Resources that the council acknowledges weaknesses in Internal Control and the issue around procurement cards not reflecting current practices was being addressed.

The Audit Commission advised that they were unable to certify completion of the Audit until the response from an objection received around Newport Harbour and the Harbour Estate and the alleged incorrect recording of all income had been concluded. However, the Commission was satisfied that this did not have a material affect on the accounts.

The Audit Commission reported that proper arrangements were in place for each VFM criterion and that an unqualified VFM conclusion would be made for the year ending 31 March 2010.

RESOLVED:

THAT the Annual Governance Report 2009/10 be noted and that the recommendations within the action plan be agreed,

15.2 Pension Fund Annual Governance Report 2009/10

Members of the Committee were advised that with regard to the financial statement an unqualified opinion was given which was free from material error with an adequate internal control environment.

The Committee enquired as to the information on the comparative costs to other local authorities with regard to the percentage costs over the scale fee which was requested from the Audit Commission at the previous meeting. The Commission advised that the information was sent to council officers and that it would be circulated to members at the earliest opportunity following the meeting.

RESOLVED:

THAT the Pension Fund Annual Governance Report 2009/10 be noted and that the recommendations within the action plan be agreed,

16. Treasury Management Annual Report 2009/10

The Technical Finance Officer presented to members the annual report on treasury management policies, practices and activities for the financial year 2009-10 in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management 2009, and the council's approved Treasury Management Strategy 2010-11. It was the first time that the Committee had received the information in the format presented.

With regard to the ratio of financing costs to the net revenue stream, the Committee was advised that the cost of borrowing included the cost of interest and the capital element to repay. Historically the capital programme hadn't always been delivered as anticipated hence the Council had not needed to borrow so much externally as previously anticipated. Because a large capital programme was planned to be delivered over the next 3 years, partially grant funded and partially funded by external borrowing, the ratio of financing costs to net revenue stream was likely to rise each year, hence the increased estimated figured predicted within the report for 2010/11, 2011/12 and 2012/13.

Members were also advised that the councils Capital Programme, originally agreed at Cabinet, was monitored regularly on a monthly basis, with each directorate submitting a report on its Capital Programme to the relevant service boards, and the programme continued to be subject to a large amount of scrutiny. It was noted that over the previous year the performance of the Capital Programme had improved although there had been some slippage, with the One School Pathfinder project cited as an example owing to the lengthy procurement process. However, members were asked to note that with any capital programme a certain proportion of slippage was likely.

RESOLVED:

THAT Treasury Management Annual Report 2009/10 be agreed and that the performance of the council's treasury management function for 2009-10 be noted.

17. Risk Management Report

The councils Risk Manager presented to members a report which provided an overview of the council's strategic risk profile along with any shifts within it. This assisted the Committee to meet its responsibility for overseeing the council's overall arrangements for risk management and provide members with assurance that appropriate processes were in place to manage the council's key risk exposures as well as consider whether there were other areas of current or emergent risk exposure which the Committee would welcome further assurance from internal audit. It was noted that each major project had its own risk register which was monitored on a regular basis.

The Committee was advised that whilst there was a large amount of high risk areas on the Strategic Risk Register such as the Highways PFI (Private Finance Initiative), the One School Pathfinder and the Transforming Social Care programme, it was the way in which such projects were managed which were being assessed as opposed to the actual projects themselves. It was therefore seen as good practice to rate certain items as high, thus helping to mitigate any such risks. Such good management practice would include the procurement process of the PFI. A robust and comprehensive process would, if managed effectively, provide assurances that any risk to the council and Island residents would be low.

On the creation of two new risks: failure to take the Community Leadership opportunity provided under the new framework of Governance whilst meeting the corporate priorities, was due to central government devolving power to local leadership level, i.e.; the Big Society initiative.

With regard to the risk identified around Carbon Reduction and Land Fill, the Committee was advised that the Strategic Director for the Economy and Environment was meeting with the waste contractor and operator of the plant as soon as possible in order to alleviate the risk around not meeting performance targets and thus leading to financial penalties.

The Risk Manager stated that the assessment figure on the risk register was calculated via a Risk Matrix, which provided a skewed figure. Members were advised that the risk policy and strategy was the subject of a revision and it was anticipated that the confusing method of calculation would be resolved.

On the Human Resources (HR) capacity risk, whilst assessed as low, there were numerous actions to be addressed. This was due to HR being at the core of the organisation with the council placing its employees as a high priority. It was therefore important to maintain the low risk assessment. Failure to do so would see the risk level rise.

RESOLVED:

THAT the Risk management Report be noted.

18. Internal Audit Outcomes Report – Quarter 1 2010/11

The Chief Internal Auditor presented to the Committee a report which provided a summary of internal audit performance for the first quarter of 2010/11 and allowed progress to be monitored against the audit plan approved at the Audit Committee meeting of 2 March 2010.

Members were advised that all four audits, the Strategic Asset Management Plan, the Winter Maintenance, Self Approved Purchases and the Procurement System had all been given a Substantial assurance level. The Proportion of the Audit Plan Completed compared to the same period of 2009/10 was also better, with an overall figure of 75% being achieved as opposed to 52% the previous year.

RESOLVED:

THAT the Internal Audit Outcomes Report be noted.

19. Members Question Time

No written questions from elected members had been received; however, Cllr Barry asked when the vacancy for the Committee membership would be resolved. The Committee was advised that the Leader of the Council was aware of the situation and that it was envisaged that the matter would be resolved as soon as possible.

CHAIRMAN.....