

## **GOVERNANCE & AUDIT COMMITTEE**

GOVERNANCE & AUDIT COMMITTEE MEETING held on Friday 9 March 2012 at 3 pm in Conference Room A, 2<sup>nd</sup> Floor, Civic Offices, Portsmouth.

(NB: These minutes should be read in conjunction with the agenda and reports for the meeting which can be found at [www.portsmouth.gov.uk](http://www.portsmouth.gov.uk))

### **Present**

Councillor Terry Hall (Chair)  
Councillor Michael Andrewes  
Councillor Donna Jones

### **Officers in Attendance**

Michael Lawther, City Solicitor & Strategic Director  
Jon Bell, Head of Audit & Performance Improvement  
Michael Lloyd, Directorate Finance Manager (Technical & Financial Planning)  
Kelly Nash, Corporate Performance Manager  
David Pennery, Auditor  
Mark Justesen, Audit Manager, Audit Commission  
Kate Handy, District Auditor  
Rio Caldwell, Strategy Advisor  
Greg Povey, Procurement Manager  
Elizabeth Goodwin, Deputy Chief Internal Auditor

#### **16 Apologies for Absence (AI 1)**

Apologies for absence were received from Councillors David Fuller. John Ireland and Robert New.

#### **17 Declarations of Interest (AI 2)**

Councillor Hall declared a personal and non-prejudicial code of conduct interest in relation to Agenda Item 8 in that her husband had previously been a Southsea Town Councillor and was also its 'responsible financial officer'.

#### **18 Minutes of the Meeting held on 27 January 2012 (AI 3)**

**RESOLVED that the minutes of the meeting held on 27 January 2012 be confirmed and signed by the Chair as a correct record.**

#### **19 Updates on Actions Identified in the Minutes (AI 4)**

With regard to 4a) of the previous minutes (capturing the effectiveness of member training) the City Solicitor confirmed that he was working to achieve this through group secretaries.

Regarding page 6, the City Solicitor said he had not made any progress regarding RIPA.

With respect to double A (AA) and triple A (AAA) financial status, Councillor Donna Jones confirmed that the report on Treasury Management Strategy addressed the matters she had been asking about.

With regard to page 8, concerning reference to paragraph C26 in the audit recommendations table regarding the data relating to records management, members had asked how they would know when this task had been completed and the City Solicitor said that he would report back to the Committee.

## **20 Update Report from the District Auditor (TAKE IN REPORT)**

Ms Kate Handy introduced the report and said that the purpose of the Paper is to provide the Committee with the District Auditor's External Audit Update Report as at February 2012. Ms Handy explained that Ernst & Young had been appointed as the new auditors for the south-east region including Portsmouth and that a letter confirming this had been sent to the Chief Executive. Ms Handy explained that there would be a 40% reduction in audit fees largely because the Audit Commission had been disbanded. She explained that liaison meetings with Ernst & Young were being set up and that a date set for Portsmouth to attend an introductory meeting as part of the consultation process had been set for 2 May.

Mr Mark Justesen, Auditor, Audit Commission said that the audit for 2010/11 audit year has now been closed and that the auditors were now looking at the year 2011/12. The auditors have produced a plan showing the risks they had identified and how these risks would be tested and assessed. He highlighted on page 3 of the progress report that there might be a need to charge an extra fee if current levels of correspondence continued. However, to manage the time spent dealing with one regular correspondent, a protocol had been agreed to respond by exception and only to direct communications.

Mr Justesen drew the Committee's attention to the following:-

- With regard to Health & Social Care, Portsmouth is in the upper quartile for emergency admissions for the over 65s which suggested potential health problems were not being picked up early enough. Portsmouth was also in the upper quartile for the number of permanent admissions to residential and nursing care and for the percentage of people who die at home.
- With regard to agency costs ie when the City Council employed people who had skills not available in the current workforce, PCC was in the middle of its labour market nearest neighbours.

- With regard to expenditure on employees as a percentage of total revenue expenditure, PCC is in the upper quartile when compared to its labour market nearest neighbours. In 2008/09, it was almost in the lower quartile but percentage has increased by almost 9% in 2009/10 and 2010/11 while others remained steady or fell. The most out of line areas identified were: social care, Highways and Transport, Planning & Development and Central Services. Mr Justesen said that detailed information about this was available on the Audit Commission's website.

It was confirmed that Jon Bell's team will look into these matters and the Chair asked that this should incorporate how Portsmouth City Council differs from its comparators, why it differs and any ways that could be identified to improve the situation.

During discussions the following points were raised:-

- It was acknowledged that it was difficult to get the right balance in the report between having a shorter summary which might be more readily understandable as opposed to a full report which would fulfil the need for transparency. The accounts were however published in their entirety elsewhere so they could be accessed if anybody wished to do so. The City Solicitor said that he would reflect on how best the information could be provided in future. It was suggested that it would be useful to see which authorities are good at getting the balance right and that maybe the new providers Ernst & Young would be able to help with this.

**RESOLVED that the report be noted.**

## **21 Audit Plan 2011/12 from the District Auditor (TAKE IN REPORT)**

Mr Mark Justesen introduced the report and said that it informed the Committee of the Work Plan for the 2011/12 audit based on the Audit Commission's risk-based approach to audit planning. Mr Justesen said that he had considered the additional risks that are relevant to the audit of the accounting statement and had not identified any significant risks. However, he had identified a number of specific risks which are set out on page 5 of the report. The four specific risks are –

- 1) Financial Pressures - the Council needs to deliver over £15M of savings in 2011/12 to achieve its budget. Mr Justesen explained that the auditors need to check that this had not unduly influenced financial reporting and the assumptions underlying the calculation of estimates.
- 2) Heritage Assets – Mr Justesen explained that there is now a new requirement to disclose all heritage assets whether or not they are recognised on the balance sheet. Heritage Assets would for example include assets which are held and maintained principally for its contribution to knowledge and culture. There is a risk that the authority may be unable to identify and account for all heritage assets.

- 3) Pooled Budgets - the auditor has a duty to check that the accounting arrangements are properly carried out in accordance with the signed agreements..
- 4) Senior Management Capacity – the Section 151 responsibilities are now vested in the Head of Financial Services whose team was also reduced in the year. The Auditor needs to check that there will be sufficient capacity to properly manage and deliver a proper set of accounts at the end of the year.

The Auditor next referred to the risks identified that relate to their Value for Money Conclusion.

1) The Transformation Programme – The Auditor said that the Council has set itself a new 3 year savings target for 2012/13 to 2015/16 of £56M but is trying to achieve as much of this as possible through increased efficiency and effectiveness, rather than cuts in service. Mr Justesen said that the Transformation Programme is an ambitious modernisation programme and so the auditors would consider the arrangements for the development of the underlying plans and challenging the assumptions used to calculate estimated savings by looking at 4 particular aspects of the transformation programme as follows:-

- 1) Public Health & NHS Reorganisation

Mr Justesen said that the Council is –

- Setting up a Health and Wellbeing Board to lead on improving the strategic co-ordination of commissioning across NHS, Social Care and related Children's and Public Health Services.
- Working with the SHIP cluster to prepare for the transition of public health services.
- Planning increased use of joint arrangements with health for commissioning, contracting and assessment.
- Building relationships with the emerging clinical commissioning groups. Mr Justesen explained that these all bring a range of governance and value for money issues together and the auditors would review the Council's preparation for these changes and would be considering how well integrated they are with the transformation programme.

- 2) Senior Management Capacity

On the retirement of the previous Section 151 Officer the strategic elements of his portfolio were allocated to the other strategic directors and the Section 151 responsibilities to the Head of Financial Services. The auditors will be looking at the impact of the revised management structure and particularly at the senior management capacity.

### 3) Finance and Investment

The Council is planning an extensive capital development programme as well against a background of new housing subsidy and business rate financing arrangements. The auditors will review the development of the capital strategy and its linkage to revenue budgeting and the assumptions used in financial modelling.

### 4) Asset Management

In recent years the auditors have raised concerns over the management of the Council's assets. The auditors would follow up the Council's progress in reviewing its portfolio and in the returns it generates from investment assets.

During discussion the following points were raised:-

- Members felt that although it was still early days Mr Chris Ward appeared to be coping very well with his new responsibilities and Members felt that the budget process had been well managed. Concerns were raised about the risk involved when one person is responsible for a great number of tasks. The City Solicitor said that the management structure is being looked at and that it may be possible to transfer some work from Financial Services to elsewhere in the organisation.
- With regard to Asset Management, Mr Tony Nicholas the Head of Service was making changes but that these would probably not be completed for another year.

**RESOLVED that the Committee noted the Audit Plan 2011/12.**

## **22 Certification of Claims and Returns - Annual Report from the District Auditor**

### **(TAKE IN REPORT)**

Ms Kate Handy said that the purpose of this item is to summarise for the Committee the findings from the Audit Commissioner's certification of 2010/11 claim. The Auditor said that the audit team certified 8 claims with a total value of £210M. The Auditors qualified one claim and amended errors on that claim and one other. Mr Justesen said that the single qualification related to an underpayment of benefits identified during auditing, rather than any systematic errors or control weaknesses. There were a further 2 errors on claims which arose from this classification on expenditure and incorrect values being input to the claim. Mr Justesen also said that the fee was lower than the estimated figure and was also less than the fee charged for 2009/10.

During discussion the following points were clarified:-

- For claims and returns below £125,000 the Audit Commission does not certify arrangements.

- The Council's arrangements were largely unchanged from the previous year although there is no longer a Grants Co-ordinator which may pose a risk going forward (although there was no evidence of this so far.)
- The audit of the Housing Benefit claim has required less work this year which has led to a decrease in the fee charged. This is due to fewer errors being identified but also as a result of the co-operation and responsiveness of the Housing Benefits Team.
- Ms Elizabeth Goodwin, Internal Auditor, confirmed that Internal Audit would also be monitoring the Council's response to these matters.

**RESOLVED that the Committee noted the findings from the Audit Commissioner's certification of 2010/11 claim.**

**23 Internal Audit Performance Status Report 26 February for Audit Plan 2011/12**

**(TAKE IN REPORT)**

Ms Goodwin introduced this report and said that the purpose was to update the Committee on the internal audit performance for 2011/12 to 6 February 2012 against the Annual Audit Plan and to highlight areas of concern and areas where assurance can be given on the internal control framework. She explained that there are 3 new areas of concern (2 critical exceptions and 1 high risk area ie an area where no assurance was given due to the number of high risk exceptions). These are outlined in Section 6 of the report and are 1)voluntary drivers, 2)foster placements and 3)access to resources – development of processes (Children's Social Care and Safeguarding). An action plan had been put in place to deal with all of these. Ms Goodwin also reported that at the time the report was written, 71% of the annual audit plan had been completed but as at 9 March 2012, 90% of the plan had now been completed. Ms Goodwin said that Appendix A showed the completed audits from the 2011/12 Plan and said that 7 audit areas had been removed since the last Plan and these were listed at 5.3 of the report. The City Solicitor confirmed that the special investigations as referred to in 5.6 were reported separately.

During discussion the following points were clarified:-

- With regard to 5.3 of the report Members felt the report needs to make clear that the individual budgets (compliance) refers to Adult Social Care.
- Mr Michael Lawther undertook to find out from the Section 151 Officer what the new performance process concerning the MTRS Reserve entailed and whether any new principles would be applied to it.

- With regard to CRB checks for foster carers, the report highlighted that these were not consistent or centralised. Ms Goodwin confirmed that this was being monitored closely and that a further report would be brought to this Committee in 3 months time. The City Solicitor said that reports on progress go to the Monitoring Officer and Section 151 Officer to ensure that any issues are kept under review and that the process was constructed. Ms Goodwin said that one of the problems is that data is held in several different systems across PCC.

On the issue of CRB checks generally, it was confirmed that there are proposals that CRB checks can move with the individual rather than them having to undergo a further CRB check whenever they move employment. However, this is not yet in force.

**RESOLVED that**

- (1) **Members note the audit performance for 2011/12 to 6 February 2012 and**
- (2) **the highlighted areas of control weakness for the 2011/12 Audit Plan are noted by Members.**

**24 Update on the Council's Compliance with its Equality Duty and Equality Impact Assessment Process**

(TAKE IN REPORT)

The City Solicitor introduced the report and explained that he wanted to emphasise to Members the seriousness that PCC places on equalities legislation. He explained that non-compliance can lead to costly, time consuming and reputation damaging legal challenge by individuals or pressure groups. The City Solicitor said that the table included in Section 4 of the report shows that most Services have been compliant with their duties.

The City Solicitor confirmed that an update report on the Council's compliance with its equality duty and equality impact assessment process would be brought to this Committee on a quarterly basis. He also confirmed that currently this duty is not part of the Lamp Training Programme. Councillor Donna Jones felt that it was important that it was included and that she intended to ask that this is included on an agenda for a future Employment Committee meeting with a view to making it a mandatory part of the Lamp Programme.

**RESOLVED that**

- (1) **The Committee notes the contents of the report;**
- (2) **The Committee continues to monitor the compliance of the Council services with the equality duty and the equality impact assessment process adopted by the Council on a quarterly basis;**

- (3) The City Solicitor continues to report on such compliance to the Committee on a quarterly basis.**

## **25 Information Commissioner's Office Data Protection Report**

(TAKE IN REPORT)

The City Solicitor introduced this report and explained that the Information Commissioner's Office (ICO) would be undertaking a desk top audit of PCC's response to last year's Data Protection Audit. The ICO identified 29 recommendations where they require evidence. 29 recommendations have been completed of the original 35 recommendations following the Information Commissioner's Office Data Protection Audit and the remainder are in progression. The City Solicitor explained that the overall opinion was that PCC offered 'reasonable assurance' that processes and procedures are in place and being adhered to and that the areas of improvement identified to further reduce the risk of non-compliance with the Data Protection Act are now in progress.

During discussion the following points were raised:-

- With regard to C26 on page 12 of 20 in the appendix to the report, the City Solicitor said he would find out why this was shown as green when there appeared to be outstanding clarification required from the ISO as to what the recommendation referred to.
- The City Solicitor said he would arrange for an email to be sent to all Committee Members once clarification had been given.
- With regard to the policy hub roll-out mentioned on page 1 of the appendix to the report, Members were invited to receive a presentation to explain how this would work from Ms Kaye Taylor-Ryall.

**RESOLVED that all Members of the Committee –**

- (1) Notes the completion of the audit recommendations implemented since August 2011;**
- (2) Note the status and the progress of the remaining recommendations and**



- (3) Note that PCC will be responding and providing evidence in March 2012.**

**26 Performance Management Update (Quarter 3 2011/2012) – Corporate Performance in the Transforming Organisation**

(TAKE IN REPORT)

Ms Kelly Nash, Corporate Performance Manager, introduced the report and said that the update presents to Members the progress so far in the development of a new performance framework for the organisation and the areas of concern that have been highlighted in discussions this quarter. Ms Nash explained that following changes, there is no longer a requirement to measure PCC's performance against a mandated set of performance indicators. The organisation needs to decide its own way of managing and assessing its performance. Ms Nash explained that all service heads have been invited to attend the Strategic Directors Board to share their concerns on issues where performance is not acceptable and where perhaps a collective solution may be appropriate. Ms Nash said that several issues had emerged as set out in paragraph 5 of the report and said that it had been agreed that when all department management team led discussions are complete, there would be a session for strategic directors to reflect on the themes emerging and consider a response. This will be reported back to a future meeting of the Governance & Audit Committee.

During discussing the following points were made:-

- Reference to the people 'Group' in 4.4 of the report refers to those working in Margaret Geary's directorate.
- The City Solicitor said that Strategic Directors have found this way of reporting performance management to be more meaningful than previous reporting on this subject.
- Tackling worklessness in younger people – mentioned in 5.2 of the report was felt to be very important by Members and that the issues raised also applied to older people seeking employment. Ms Nash confirmed that although not in the report, this aspect had been picked up elsewhere.
- Members also felt that 5.7 – Children's Social Care was also a very big and important issue for Portsmouth.
- Members felt that this initiative in changing the way performance management was being looked at across the organisation is a very good initiative and congratulated officers on this initiative. Mr Jon Bell, Head of Audit and Performance Improvement said that there were some major issues contained in the report and much work had been done to produce it. However, data driven work would also continue.

- Members felt that now that the Mori Poll (which was a scientific survey) is no longer carried out, there is some concern that those working in the Council offices and Councillors themselves may not engage enough with the outside world and ordinary people. Ms Nash said that this was being looked at and that she hoped to be able to report back to the Resources Portfolio and Full Cabinet on progress made, over the next few months. It would also form part of the Transformation Programme.

**RESOLVED that the Committee –**

- (1) Note the issues raised in Section 5 of the report;**
- (2) Note the next steps as set out in Section 6 of the report;**
- (3) Note the proposals regarding the ‘user voice’.**

**27 Annual Governance Statement 2011/12 – Development Update  
(TAKE IN REPORT)**

Ms Rio Caldwell, Strategy Advisor, introduced the report and explained that its purpose was to update the Committee on the development of the Annual Governance Statement 2011/12. Ms Caldwell explained that a full report on progress against the actions identified in the 2010/11 statement was presented to the Governance & Audit Committee at the meeting on 27 January 2012. It was highlighted at that meeting that a number of significant governance issues are being tackled through changed processes. Ms Caldwell said that it was important that the tangible outcomes arising from these new processes are monitored throughout 2012 to ensure they bring about the desired effects and it was agreed that these processes would be monitored through the corporate performance cycle. This report proposes that quarterly thematic reports on ‘governance’ will be reported to the Strategic Directors Board and any outstanding issues reported back to the Governance & Audit Committee through the quarterly performance report.

During discussion the following matters were clarified:-

- A further report would be brought to this Committee in June 2012 confirming the outstanding areas for completion mentioned in paragraph 7 of the report.
- It was confirmed that this report had been sent to the Section 151 Officer so that the issues raised in 6.3 of the report would be known to him.
- It was intended that matters arising which were of concern would be discussed with the relevant Head of Service.

**RESOLVED that the Committee –**

- (1) Endorse the suggested approach to embedding the processes for improving last year's significant governance issues into the Council's Performance Management Programme (paragraph 5.3);**
- (2) Note the significant governance issues which have so far been identified for 2012 (Section 6);**
- (3) Note the outstanding areas for completion of this year's annual governance statement (Section 7).**

**28 Treasury Management Policy for 2012/13 (Information Only)**

**(TAKE IN REPORT)**

Mr Michael Lloyd, Directorate Finance Manager, introduced the report and explained that it includes the Treasury Management Policy, the annual revenue provision for debt repayment statement and the annual investment strategy. He explained that the purpose of the report is to obtain the Council's approval for the attached Treasury Management Policy Statement and that the report had also been considered by Cabinet and would be going forward to the Full Council Meeting on 20 March 2012. The report was before Members of the Committee for information only, although Members are invited to make observations on the recommendations which would then be referred to the March Full Council Meeting for consideration.

Mr Lloyd explained that some typing errors had been corrected since the report was sent to the Committee. Members advised Mr Lloyd of typing errors that they had noticed and he said that he would do his best to ensure that these were corrected before the report went to Council.

During discussion the following points were made:-

- Members felt that some bench marking should be carried out to provide a comparison between PCC and other Councils.
- It was confirmed that some Council's do employ treasury management advisors but that PCC does not. However, where there are areas that PCC does not have in-house expertise to carry out, for example forecasting interest rates, consultants who are experts in that field were also employed.

Members said that substantive comments on the report would be made at Full Council rather than at Governance & Audit Committee.

**RESOLVED that the recommendations outlined in the report be noted.**

## **29 Procurement Management Information**

(TAKE IN REPORT)

Members were advised that Appendices 2 and 3 of the report are exempt so that if the Committee wished to discuss these, the meeting would need to move into exempt session at that point. Mr Greg Povey, introduced the report and said that its purpose was to update Members on steps being taken to demonstrate that PCC is achieving value for money from its contracts for goods and services. Mr Povey said that Members had approved a recommended target of 95% conformance with contract procedure rules to be achieved by 31 March 2011. In December 2011 there was £296,117 of spend that was compliant with contract procedure rules but not registered correctly on the e-sourcing system 'Intend' and that had these contracts been entered correctly the conformance figure would have been 95%.

Mr Povey said that the table in 4.2 of the report showed the number of contracts being monitored as gold, green, amber or red and that the level of gold and green contracts was good. Mr Povey said that a person had been recruited for a year to look at making further improvements. Mr Povey drew Members' attention to Appendix 1 of the report which compared the total non-conforming value, the total transaction value and the percentage of non-compliant contracts for each Service for the period ending December 2011 and for 2012 to date. Mr Povey then referred to exempt appendix 2 which provided an explanation of those service areas where conformance requires improvement. Mr Povey also drew Member's attention to exempt appendix 3 which detailed 5 contracts where the supplier is performing to an unsatisfactory level and explaining remedial action that is being taken.

During discussion it was suggested that the Lamp Programme should include training on procurement to make sure that all managers in PCC are aware of the rules. Mr Jon Bell said that originally a decision had been taken that the Lamp Programme would not include governance type work, but that this decision may need to be revisited. Councillor Donna Jones said that she would suggest that this is also considered by Employment Committee when they look at perhaps making equalities training part of the Lamp Programme.

Mr Povey confirmed that the procurement process would be re-launched very soon and that there would be a requirement not only to get Head of Service approval, but also the Category Manager's approval.

In response to a query, Mr Povey said that he would find out whether a red flag status given to a contractor was communicated to that contractor or not and would circulate the answer to members of the Committee. Mr Povey also confirmed that information about contractors was not shared with other Councils. This was because the key performance indicators that Portsmouth City Council insisted upon were set at higher standards than neighbouring council's imposed. However, informal discussions sometimes took place.

As there were questions on exempt appendices, it was proposed by Councillor Hall, seconded by Councillor Jones that under the provisions of Section 100A of the Local Government Act 1972 as amended by the Local Government (Access to Information) Act 1985 the press and public be excluded for the consideration of exempt appendices 2 and 3 of the report on the grounds that they contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act 1972 and this was agreed.

Following a discussion about the matters contained in the exempt appendices (which involved specific questions being raised and answered on the breakdown of non conforming spend of a particular service), it was agreed that the resolution could be recorded in the open minutes.

**RESOLVED that –**

- (1) Members note progress in moving towards achieving the target of 95% conformance for the 2011/12 financial year.**
- (2) That Members note the performance of our suppliers and contractors and action in progress to address poor performance.**

**Meeting ended at 5 pm.**

**Chair**