

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF A MEETING of Governance & Audit & Standards Committee held on Thursday 27 September 2012 at 2.00 pm in Conference Room A, second floor, Civic Offices, Portsmouth.

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

Present

Councillor David Fuller (Vice Chair)
Councillor Phil Smith
Councillor Sandra Stockdale
Councillor Donna Jones
Councillor Neill Young

Officers

David Williams, Chief Executive
Chris Ward, Head of Finance and Section 151 Officer
Lyn Graham, Chief Internal Auditor
Elizabeth Goodwin, Deputy Chief Internal Auditor
Jon Bell, Head of Audit & Performance Improvement
Paddy May, Corporate Strategy Manager

Ms Kate Handy – District Auditor
Mr Mark Justesen – External Auditor

1 Apologies for Absence (AI 1)

Apologies for absence were received from the Chair of the Committee, Councillor Terry Hall. Councillor Sandra Stockdale attended as her Standing Deputy. Councillor David Fuller, Vice Chair, chaired the meeting.

2 Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

3 Minutes of the Standards Committee Meeting – 16 July 2012

RESOLVED that as there were no members present today who attended the Standards Committee Meeting of 16 July 2012 that this item be deferred to the next scheduled meeting of the Governance & Audit & Standards Committee.

4 Minutes of the Meeting of Governance & Audit Committee held on 28 June 2012

RESOLVED that the minutes of the meeting held on 28 June 2012 be confirmed and signed by the chair as a correct record.

5 Updates on actions identified in the minutes (AI 5)

During discussion the following matters were raised:

- it was agreed that an update report on the role of the independent person be brought to a future meeting of Governance & Audit & Standards Committee.
- the Chief Executive confirmed that 232 managers had now attended the LAMP training.
- It was agreed that the Chief Executive would report back to a future meeting of Governance & Audit & Standards Committee concerning the public health and NHS reorganisation especially in relation to the PCT transition of staff to the city council and how this would be managed. A report on the application of rules and regulations in relation to those staff transferring from PCT to PCC would be brought to a meeting of the Employment Committee. The Chief Executive confirmed that some governance issues would be decided at national level but that the Employment Committee would oversee arrangements at local level.
- Reference was made to the request that had been made at the last meeting concerning how much the current staff suspensions are costing PCC and it was agreed that this information would be circulated to members outside the meeting.

6 Update report from the District Auditor (AI 6)

(TAKE IN REPORT)

Mr Mark Justesen introduced the report and said that it informed the committee of the progress made by external auditors in delivering their responsibilities. He also advised that it includes an update on the externalisation of the audit practice. Mr Justesen advised that the Audit Commission Board had confirmed the audit appointments for the audit of the accounts of all principal bodies from 2012/13 and that these appointments commence on 1 September 2012. On 31 July 2012, the Director of Audit Policy and Regulation wrote to Chief Executives of all principal bodies to inform them of the Board's decision and to confirm their new audit provider. PCC's new audit provider is Ernst and Young.

RESOLVED that the update from the District Auditor be received and that the Chief Executive is not required to take any action.

7 Annual District Auditor's Governance Report 2011/12 (AI 7)

(TAKE IN REPORT)

Ms Kate Handy introduced the report which summarized the findings from the 2011/12 Audit which Ms Handy advised is substantially complete. Ms Handy said that the report included the messages arising from the audit of PCC's financial statements and the results of the work she had undertaken to assess PCC's arrangements to secure value for money in its use of resources.

With regard to the financial statements Ms Handy said that as at 30 September 2012 she expected to issue an unqualified audit opinion. She explained that the auditors had received a set of draft financial statements for audit by the deadline. She said that overall the quality of the accounts and supporting working papers was much improved with the exception of the group accounts. The council had agreed a number of changes as a result of the audit but there is one unadjusted error and a number of qualitative matters as mentioned in the report.

With regard to value for money, the District Auditor expected to conclude that PCC had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. She said that the council report 2011/12 net revenue expenditure was £4.3m lower than budgeted. The council had developed a medium term financial strategy, aligned to its corporate priorities, that clearly sets out the budget gaps projected in future years and demonstrates its financial resilience. Ms Handy went on to say that the council had identified and delivered a range of efficiency savings in 2011/12 and 2012/13 whilst prioritising its resources within tighter budgets. She said that financial performance management arrangements should enable the council to manage the reductions in central funding over the medium term. The District Auditor said that she expected to complete the outstanding work on the whole of government accounts and report her findings to management by 5 October 2012 and planned to issue her certificate by 12 October 2012.

During discussion the following points were raised:

- With regard to senior management capacity the Chief Executive advised that issues concerning senior management capacity should be dealt with by the Employment Committee and that this could be suggested to the chair of that committee as a potential agenda item.
- With regard to the group accounts, it was confirmed by Mr Chris Ward that he was confident that there would be an improvement as this was a performance issue which won't recur.

- A discussion took place on IAS 16 (43) which requires each significant component of an asset to be depreciated separately. PCC's policy is to only consider separate components where the whole property is valued at more than £3m when it is revalued as part of the five year cyclical plan. It was explained that the council has not recognised separate components on property it revalued at over £3m in 2011/12 because they had short asset lives that mean all components will be fully depreciated before any individual component needs replacing. Only four properties have been split into components. The District Auditor confirmed that she did not believe the financial effect of this would have a material effect on the 2011/12 accounts but suggested the council could revisit whether it is complying with its own policy.
- Ms Handy explained that the audit fees charged next year would be approximately 40% less than the current charge. She also confirmed that she and Mark Justesen would be transferred to Ernst and Young under TUPE arrangements and that they would still be the external audit team for PCC and that this should ensure a smooth transition of audit arrangements.

It was agreed that the chair should sign the letter of representation and that this would be arranged by Mr Chris Ward.

RESOLVED

- (1) that the committee notes the adjustments to the financial statements included in the report at appendices 2 and 3;**
- (2) that the committee approves the Letter of Representation, provided in Appendix 4 of the report, on the Council's behalf before the auditors issue their opinion and conclusion.**
- (3) that the committee agrees the proposed action plan (appendix 6)**

8 Statement of Accounts 2011/12 (AI 8)

(TAKE IN FINANCIAL STATEMENTS 2011/12)

Mr Chris Ward introduced the report and advised that members had already had the opportunity to attend a detailed presentation of the financial statements which were before the committee today for approval. Mr Ward explained that whilst the annual governance report credits the council with a significant improvement in the quality of the financial statements submitted for audit, it also reports that there were a number of errors contained within the financial statements and makes notable reference to the difficulties encountered with the group accounts. He said that all but one of the errors identified throughout the audit have been agreed and corrected. The one item that the audit commission have identified as an error, but which has not been adjusted and the reasons for not adjusting the statements are set out in the table in page 3 of the covering report.

RESOLVED that the financial statements 2011/12 for Portsmouth City Council comprising the following be approved:

- Explanatory foreword

- Statement of responsibilities for the statement of accounts
- Movement in reserves statement
- Comprehensive income and expenditure statement
- Balance sheet
- Cash flow statement
- Notes to the financial statements
- Collection Fund
- Housing Revenue Account (HRA)
- Movement on the Housing Revenue Account balance
- Group Accounts

The accounts were signed and dated by Councillor David Fuller who chaired the meeting of Governance & Audit & Standards Committee on 27 September 2012.

9 Audit Performance Status Report to 24 August for Audit Plan 2012/13 (AI 9)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report and explained that there was one new critical exception highlighted in this report. This concerned the client affairs team (Financial Services) which takes responsibility for the finances of Social Care clients who are incapable of managing their own affairs, acting as their deputy through an application to the Court of Protection. The audit showed that there were no formalised procedures on how to deal with client property searches or records that need to be kept. There is now a formalised procedure in place that covers these matters and a future audit will review the effectiveness of procedures that had now been put in place.

During discussion the following point was made:

- The higher rate of achievement shown for the same period for the last two years was likely to be as a result of the high level of skill demonstrated by the team of internal auditors and increase in competency levels. There had also been better planning for example in the timing of staff leave and closer monitoring. Training needs had also been identified as part of the regular one-to-ones and the annual PDR.

RESOLVED (1) that members note the audit performance for 2012/13 to 24 August 2012.

(2) that the highlighted areas of control weakness for the 2012/13 audit plan are noted by members.

10 RIPA (Regulation of Investigatory Powers Act) (AI 10)

(TAKE IN REPORT)

The Chief Executive introduced the report which was to advise members of a change in legislation regarding RIPA authorisation and usage and to seek approval to update the RIPA policy to reflect the legislative changes.

The Chief Executive explained that RIPA applications must still go through the current authorisation process and be authorised by one of the specified authorising officers. The policy has been updated to reflect that following this authorisation, magisterial approval must be sought and that RIPAs can only be submitted for activities mentioned in paragraph 3.2 of the report.

The Chief Executive explained that there is still no guidance from the office of surveillance commissioners regarding how magisterial approval is to be sought but the senior responsible officer (Michael Lawther) is in communication with the magistrates to determine the best way of submitting an authorised application and any fee that may be incurred. It was confirmed that once the process becomes clear, the current RIPA application forms attached to the policy will be updated.

In response to questions it was confirmed that:

- There had been 17 RIPAs this year – mainly concerning the use of blue badges and also regarding the sale of alcohol and tobacco to minors.
- The average number of RIPAs each year was between 7 and 10.
- It was confirmed that RIPAs were paid for by PCC and not by the Police.

The Chief Executive said that there was a growing area of debate concerning the impact on the individual of all the data being captured as this could amount to significant surveillance. He said that the measures taken needed to be appropriate.

In response to a question, it was confirmed that a RIPA would be required in order to carry out CCTV coverage.

RESOLVED that members of the Governance & Audit & Standards Committee

- (1) note the current legal situation with regard to the protection of Freedoms Bill and its impact on RIPA authorisations; and**
- (2) approve the update to the policy.**

11 Treasury Management Monitoring Report for the first quarter of 2012/13 (AI 11)

(TAKE IN REPORT)

The report was introduced by Mr Chris Ward, Head of Financial Services and Section 151 Officer who explained that the purpose of the report is to inform members and the wider community of the council's treasury management

position at 30 June 2012 and of the risks attached to that position. He explained that the report had been to cabinet and had been brought to Governance & Audit & Standards Committee as an information item for noting. Mr Ward explained that the main conclusions are that PCC is operating within the limits set in March and that interest rates are likely to be low for some time to come. It may be that money is put out on loan for a longer period in order to achieve a better return. Mr Ward explained that Moody's Credit Rating Agency downgraded Barclays Bank's long term credit rating from AA3 to A2. The effect of the downgrading on the council's annual investment strategy is to reduce the investment limit for Barclays from £15m to £10m. The council currently has £15m invested with Barclays. Consequently 1.97% of the investment portfolio no longer complied with the council's investment strategy. No further investments will be placed in Barclays until the council's existing investments fall below the new £10m limit on 1 November 2012.

During discussion it was confirmed that it was possible that PCC may expand its lending list to include lower rated investments with potentially higher returns but that this would also represent a greater risk.

RESOLVED that the treasury management indicators for the first quarter of 2012/13 set out in paragraph 4 of the report be noted.

12 Treasury Management Outturn 2011/12 (AI 12)

(TAKE IN REPORT)

Mr Chris Ward, Head of Financial Services and Section 151 Officer introduced the report and explained that it had already gone to cabinet and was due to go on to council on 16 October 2012 and was before this committee for noting. Mr Ward explained that section 5 of the report - Actual External Debt – detailed the reasons why the city council exceeded its own borrowing limits.

During discussion it was confirmed that the city council's investment activities are benchmarked by Sterling Consultancy Services against 14 other councils and the graphs showing the councils' average rates of return against credit risk were set out in tables on page 15 of the report showing average rate against credit risk. The 14 other councils are deliberately kept anonymous.

There followed some discussion about how much risk the council should take with its investments and Mr Ward said there was an overriding need to be prudent.

RESOLVED that the recommendations set out in paragraph 4 of the report relating to Appendices A and B be noted.

13 Update on the Equalities Legislation and the Council's Compliance with the Equality Impact Assessment Process (AI 13)

(TAKE IN REPORT)

The Chief Executive introduced the report which updates the Governance & Audit & Standards Committee on the compliance of council services with the equality duty and the equality impact assessment process since the last report dated 28 June 2012 and on the age of discrimination ban in the provision of services and performance of public functions. The Chief Executive said that the details of legislative changes are set out in section 5 of the report. He confirmed that the current equality impact assessment process already takes into account age as a protected characteristic in the provision of services and performance of public functions and that therefore no new process will need to be developed to ensure that the council complies with the age discrimination ban.

RESOLVED that the committee (1) notes the contents of the report;

(2) 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; and

(3) that the City Solicitor continues to report on such compliance to the committee on a quarterly basis.

14 Corporate Performance in the Transforming Organisation, Quarter One, 2012/13 (AI 14)

(TAKE IN REPORT)

Mr Paddy May, Corporate Strategy Manager, introduced the report which was to highlight issue of corporate performance emerging from the corporate performance framework in Portsmouth City Council and to update the committee on progress with issues previously reported. Mr May said that following discussions between service heads and strategic directors board, some key issues had arisen as set out in section 5 of the report.

During discussion the following matters were raised:

- It was confirmed that the team of peer reviewers supported by the Local Government Association would visit PCC in March 2013.
- Customer insight had been interpreted to mean the extent to which customer expectations are met.
- A request was made that a training session be arranged by strategy for those involved in the review supported by the Local Government Association into the organisation to provide some feedback on how effectively PCC is maintaining a focus on service improvement against a backdrop of reducing resource.

RESOLVED that the Governance & Audit & Standards Committee note the report.

15 School Transport and Student Awards Appeal Committee – Appointments 2012/13 (AI 15)

RESOLVED that the appointment of Councillors Hall, Smith and Young be confirmed by the Governance & Audit & Standards Committee to serve on the School Transport & Student Awards Appeal Panel for the 2012/13 municipal year, with Councillors Andrewes, Fuller and Jones being appointed as Standing Deputies.

The meeting concluded at 3.25pm.

Chair

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Councillor David Fuller

VJP/CB
17 October 2012
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