

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 29 January 2016 at 2.30 pm at the Conference Room A - Civic Offices

(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 Simon Boshier (in the chair)
Councillor Ian Lyon (Vice-Chair)
Councillor John Ferrett
Councillor Steve Hastings
Councillor Hugh Mason
Councillor Phil Smith

Officers

Michael Lawther, Deputy Chief Executive and City Solicitor
Jon Bell, Director of HR, Legal & Procurement
Michael Lloyd, Directorate Finance Manager (Technical & Financial Planning)
Elizabeth Goodwin, Chief Internal Auditor
Mark Somerset, Auditor
Kelly Nash, Corporate Performance Manager
Greg Povey, Assistant Director of Contracts, Procurement & Commercial
David Moorman, Contract Management Business Partner

External Auditors

Helen Thompson, Executive Director, Ernst & Young
Adam Swain, Manager, Audit and Assurance, Ernst & Young

1. Apologies for Absence (AI 1)

There were no apologies for absence.

2. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

3. Minutes of the Meeting held on 6 November 2015 (AI 3)

RESOLVED that the minutes of the meeting held on 6 November 2015 be confirmed and signed by the chair as a correct record.

4. External Auditors - sector update, progress report year for ending 31 March 2016 and Certification of Claims and Returns Annual Report 2014/15 (AI 5)

(TAKE IN REPORTS)

The chair explained that although Ernst & Young are still the appointed external auditors for the city council, different personnel would be providing the external audit function. He introduced Helen Thompson, an executive director of Ernst & Young and Adam Swain, Manager, Audit and Assurance, to the committee. There followed general introductions. Ms Thompson introduced the sector update explaining that this was an information sharing document and that there was nothing in particular to highlight concerning Portsmouth City Council.

Members referred to the key questions for the Audit Committee mentioned on page 16 of the documents pack and asked that a response to the queries should be brought to the next meeting.

Audit Progress Report - January 2016

Ms Thompson said that the audit progress report was in its early stages. Its purpose is to provide the committee with an overview of the progress made with the work that the external auditors need to complete during the 2015/16 audit. The report is a key mechanism in ensuring that the audit is aligned with the committee's service expectation. A more detailed audit plan setting out the risks identified and the work that will be undertaken in response will be presented to this committee in March 2016. Ms Thompson drew the attention of the committee to new guidance on value for money arrangements which apply to audits from 2015/16 onwards. She explained that full details can be found at the link given on page 3 of the progress report. Basically there would be a single criterion going forward. The overall criterion for 2015/16 is

- In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

She also explained that the Department of Communities & Local Government (DCLG) has announced that it will not extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors and directly managing the resulting contract and the relationship. For that reason, the city council will need to start putting in place whatever is required to deliver this. As part of the process the city council will need to set up auditor panels to advise on the selection, appointment and removal of external auditors and to ensure an independent relationship with them. These arrangements will need to be in place by early 2017 with a procurement

process taking place in spring 2017 to enable external auditors to be appointed by December 2017.

During discussion the following matters were clarified:

- So far, the external auditors confirmed that there was nothing in particular to bring to the attention of the Governance & Audit & Standards Committee.
- With regard to potential costs of the changed arrangements, it was not possible to say with any certainty whether the costs would increase or decrease.
- It was confirmed that councils could form buying consortiums.
- It was anticipated that Governance & Audit & Standards Committee members would be likely to form the Auditor Panel with the addition of an independent member or members constituting part of that committee for the purpose only of appointing the Council's external auditors.
- Ms Thompson said that it would only be possible to choose auditors who had been identified as having the appropriate expertise.
- It was confirmed that the appointment would be a member decision.
- It was confirmed that fees charged are dependent on the risks to the authority and that although the reduction of risks was already a priority the external auditors have to work in accordance with audit priorities.

Certification of Claims

Mr Swain introduced the Certification of Claims document and advised that Section 1 of the report outlines the results of the 2014/15 certification work and highlights the significant issues. He advised that the external auditors checked and certified the housing benefits subsidy claim with a total value of £109,569,689. A qualification letter was issued but no recommendations were made for improvement indicating there were no particular issues.

In response to a query, Mr Swain confirmed that the random selection tests did not show any systematic errors and there were no common patterns to the errors that were discovered. Often these were simply down to human error.

The chair thanked the external auditors for their reports.

5. Performance Management Update Quarter 2 2015-16 (AI 6)

(TAKE IN REPORT)

Kelly Nash introduced the report and drew members' attention in particular to Section 3 concerning the quality of returns being received from the various services. She advised that in terms of rigour and coverage there was a wide disparity and in some cases the returns were received at a very late stage. No report had been received from the Director of Public Health in spite of reminders.

Ms Nash advised that there is no consistency across matters such as staff sickness and that there are significant omissions as directors highlight issues

of their choosing. For that reason, the report recommends that for the next quarter, templates will be tailored to be more specific and to ensure that there is a broader coverage of activity. It is also suggested that to strengthen ownership of the information, future returns from directors will be included without editing. In addition, the Governance & Audit & Standards Committee are able to ask directors to attend the meeting to answer questions on performance if these are not adequately addressed in the returns. In addition it is suggested that the officers charged with ensuring the strong governance of the authority ie the Chief Executive and the Monitoring Officer each contribute a narrative providing a corporate perspective as opposed to the service delivery perspective that is reflected in the current report.

During discussion the following matters were raised:

- Members expressed concern with the current subjective nature of the reports from directors and were particularly concerned that there was no report from the Director of Public Health. The chair of the committee said that in future any director who does not provide a report in time for the committee to consider, will be required to attend the meeting of the committee to answer their questions. Members were aware through other committees and discussions with the Director of Public Health that there were a number of concerns and were disappointed that nothing had been brought to this committee.
- Members felt that some of the reports lacked information that they would have expected to see for example the Adult Social Care return does not mention anything about inadequate care packages or unsafe or delayed discharges.
- Members felt that quantitative data should also have been provided in the reports from the directors as without that data it was difficult to form any judgement.
- Members acknowledged that the criticisms being made were levelled at those providing the reports and not at the report author.
- The Chief Internal Auditor said that internal audit was also doing some work to provide a more in-depth focus and this would be reported at the June meeting.
- It was suggested that the quality of the returns provided by the directors should form part of their performance development review and that this should be formalised across the organisation.

The chair suggested that there should be a debate at the next meeting about the information that should appear in the reports from the directors. In addition he asked for early sight by the whole committee of the reports from the directors. These could for example be circulated to the committee at the same time as they went to the Corporate Governance Committee. He suggested that discussions could take place with Kelly Nash about how this could best be achieved.

RESOLVED that the Governance & Audit & Standards Committee

(1) noted the report; and

(2) commented on the performance issues highlighted in Section 4 and governance issues in Section 5 and agreed the following further action:

- that any director who did not submit a report in time for inclusion in the performance monitoring reports to Governance & Audit & Standards Committee may be required to attend the committee in person.; and**

(3) agreed to the actions proposed in Section 4 of the report.

6. Treasury Management Monitoring Report for the Third Quarter of 2015/16 (AI 7)

(TAKE IN REPORT WHICH IS FOR INFORMATION ONLY)

Mr Michael Lloyd introduced the report advising that it sets out the council's treasury management position at 31 December 2015 and of the risks attached to that position. He advised that the council's treasury management operation has a cash limit of £24 million and therefore can have a significant effect on the revenue available to fund the council's front line services. In addition the council has investments with 57 institutions amounting to £385 million. If an institution defaulted on one of the council's investments the loss would have to be borne by the general fund. The council's treasury management operation does not fall under any of the cabinet members' portfolios. Therefore treasury management monitoring reports are brought to the Governance & Audit & Standards Committee for scrutiny.

During discussion, the following matters were clarified:

- The project rate mentioned under Section 5 Borrowing Activity is a restricted access rate allocated through government to fund specific schemes such as Dunsbury Hill Farm and the City Deal. The Local Enterprise Partnership allocates the project rate funding. The project rate is 2% below the certainty rate.
- Mr Lloyd confirmed that local authorities have to reply to the Local Enterprise Partnership to gain access to funds at the project rate.

A query was raised as to how PCC could find out how the proportional allocation was made by the Local Enterprise Partnership and whether PCC was receiving its fair share of the funds.

The Deputy Chief Executive undertook to find out who the city council's representatives are on the Local Enterprise Partnership and would attempt to find out more information about allocation of the project rate funding.

RESOLVED that the actual treasury management indicators as set out in Section 2(a) to (e) of the report for the third quarter of 2015/16 be noted.

7. Audit Performance Status Report to 16 December 2015 and Audit Strategy for 2016/17 (AI 8)

(TAKE IN REPORT)

The Chief Internal Auditor, Ms Goodwin, introduced the report advising that its purpose is to update the Governance & Audit & Standards Committee on the internal audit performance for 2015/16 to 16 December 2015 against the annual audit plan, to highlight areas of concern and areas where assurance can be given on the internal control framework. The report also contains the proposed audit and counter fraud strategy for the 2016/17 audit plan.

Ms Goodwin further explained that as requested by members of this committee a breakdown of the assurance levels on completed audits since the last meeting are contained in Appendix A. The first part of Appendix A shows where no assurance is present ie the key risks and these will be updated as they improve. The second part of Appendix A is the audit since the last report. The results of completed follow-up audits can be found in Appendix B and the proposed audit and counter fraud strategy for coverage for 2016/17 can be found in Appendix C.

Ms Goodwin advised that in the past there had been three levels of assurance but in order to provide more accurate information it had been decided to introduce another level.

Ms Goodwin explained that there were no new critical risk exceptions but four audits have resulted in no assurance being given. Full details are set out in Section 6 of the report. She advised of some progress updates since the report was written including

- With regard to looked after children, actions are now in progress to resolve issues raised but these have not yet been resolved.
- With regard to the Wimborne Infant School, these issues have now been resolved.
- With regard to the Coroner's Office, the issues raised have all been resolved. The service has now voluntarily registered with the Information Commissioner's Office as a data controller.
- With regard to Adult Social Care/Integrated Commissioning Unit - this was being followed up in the next quarter.
- With regard to Culture & City Development - Events, there are still matters to be resolved.
- With regard to Property & Housing - CCTV - no assurance has been given.

The Chief Internal Auditor advised that sometimes the biggest risk is reputational rather than financial.

During discussion the following matters were clarified:

- It was confirmed that no assurance in effect meant that an adequate standard had not been reached. This could be because there were too many exceptions or there was one big exception.
- It was agreed that acronyms would be explained in full the first time they appeared.

- Members asked whether it was possible to see a breakdown of the events mentioned in 6.5 of the report and the Chief Internal Auditor said she would progress this.
- With regard to a query as to why the electoral roll had been removed from the 2015/16 audit plan, the Chief Internal Auditor said that this was an area undergoing significant changes and it would be more meaningful and productive in her view to delay this. Members felt that visibility was needed on this topic and that there had been a recent notice of motion about it.
- With regard to the Coroner's Service, PCC had chosen to run this in-house to cover PCC and Hampshire County Council. Currently there is a 70%-30% cost split between Portsmouth and Hampshire and work is currently being carried out to check that this is fair. Members felt that it would be useful to have a full report on the Coroner's Office concerning whether it was now properly integrated into PCC.
- With regard to Appendix B - sample testing on purchase cards - it was confirmed that much work had been done on this and that whilst there are still failings, these were not huge overall. Members felt that it would be helpful to have some quantitative data so that they have sight of the level of transactions and the percentage of errors. It would also be useful to know whether there were common areas of non-compliance. The Chief Internal Auditor said that this would be picked up in the report to the next meeting.
- Members were concerned about the public liability insurance for events as it seemed that on some occasions organisers were unable to evidence that cover was in place. The Chief Internal Auditor advised that internal audit was comfortable with events that were run in-house. However she provided details of occasions where some events could not produce any evidence of public liability insurance, some events had inadequate cover and one event had no cover because the insurance had expired shortly before the event took place. The Deputy Chief Executive advised that it was important for external organisers to have adequate public liability insurance as if they do not have sufficient insurance and the event is being run under PCC's control, then the shortfall would be likely to rest with Portsmouth City Council. Members requested a list of all of the events. The Chief Internal Auditor advised that there had since been a change in management and already matters had improved. Much of the problems were inherited.
- With regard to licensing of smaller events, and public liability insurance, the Deputy Chief Executive advised that these were being looked at and a fully informed discussion about these matters was necessary. This was already in progress with a meeting taking place with the Licensing Manager on Monday.

RESOLVED that members

- (1) Noted the audit performance for 2015/16 to 16 December 2015;**
- (2) Noted the highlighted areas of control weakness for the 2015/16 audit plan;**

- (3) **Approved the proposed audit and counter fraud strategy for the use of audit resources for 2016/17.**

8. Regulation of Investigative Powers Act 2000 (RIPA) (AI 9)

(TAKE IN REPORT)

The Deputy Chief Executive introduced the report and said that the powers given by the Act were very rarely used by PCC. There was nothing significant to report but changes to the policy were proposed as outlined in Section 6 of the report.

RESOLVED that members of the Governance & Audit & Standards Committee

- (1) **Noted the RIPA application authorised since the last report to this committee on 27 June 2013; and**
- (2) **Approved the required changes to the corporate policy and procedure on the Regulation of Investigative Powers Act 2000 (RIPA) as a result of the new codes of practice and guidance and changes in personnel (attached as Appendix A and detailed in paragraphs 6.1.1 to 6.1.10 of the report).**

9. Committee System Cost Evaluation (AI 10)

(TAKE IN REPORT)

The Deputy Chief Executive introduced the report which advised members of the committee as to costs for a committee system as requested by the Leader of the UKIP group, Councillor Galloway. He confirmed that the cost advised was the net cost.

RESOLVED that members noted the report and the advice of the Section 151 Officer that it is not possible to implement or maintain a committee system on a true cost neutral basis.

10. Contract Management Review Update - Presentation (AI 11)

(TAKE IN PRESENTATION)

Mr Greg Povey and Mr David Moorman provided a presentation to members that demonstrated the new "Procurement Dashboard" that at a total outlay of £32,500 represented very good value for money. The programme can provide vast amounts of information and can interrogate the system in a very detailed way. The system enabled a person to look at the entire history of the deal concerned and could also provide a profile of any supplier. It had a significant number of features such as providing news alerts on those companies or customers with whom PCC has contracts. It can also profile directors and can supply information such as instances where a director is a director on more than one company supplying the same commodity. Mr

Povey explained that the council's goal is to have an outstanding culture of visibility, accountability, challenge continuous improvement and achieve continuous savings. The project is currently at the dashboard stage enabling it to be challenged and ensuring that information is readily available. He advised that this represented a complete transformation of how procurement is delivered across the council.

During discussion the following matters were clarified:

- There is a contract renewable pipeline which shows which contracts are about to expire and which can provide alerts.
- The system provides key performance indicator (KPI) scores.

The chair thanked Mr Povey and Mr Moorman for the presentation which provided an impressive amount of information. Mr Povey said he would be happy to provide more details on a one to one basis to any member of the committee who wished to see more about what the system could provide.

11. Exclusion of Press and Public (AI 12)

It was proposed by Councillor Simon Bosher and seconded by Councillor Ian Lyon that in view of the contents of the following items on the agenda the committee is recommended to move into exempt session.

RESOLVED 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 the remaining items on the agenda on the grounds that the report and their appendices contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act 1972".

12. Procurement Management Information Report (AI 13)

(TAKE IN REPORT)

Mr Greg Povey introduced the report which updated members on steps being taken to demonstrate that PCC is achieving value for money from its contracts for goods and services. He advised that Appendix 1 shows the latest month's figures and detailed year to date performance figures, exempt Appendix 2 provides an explanation of those service areas where conformance requires improvement, exempt Appendix 3 shows contract performance issues, exempt Appendix 4 shows waivers and exempt Appendix 5 shows the minutes of the Strategic Contract Management Board (9/12/15).

With regard to waivers mentioned in paragraph 3.3.4 of the report, waivers for procurements which depart from the contract procedure rules are recorded for contracts over £5,000 value. It is intended that subsequent reports use this section to bring new waivers to members' attention. As the Strategic Contract Management Board meetings are quarterly, it is recommended that this report be brought to the committee on a quarterly basis also.

The chair thanked Mr Povey for his report.

RESOLVED that members

- (1) Noted that purchase order compliance for November 2015 was 94% against the target of 95%;**
- (2) Noted the performance of our suppliers and contractors and actions in progress to address poor performance; and**
- (3) Continue to request a procurement management information report and that in light of the quarterly Strategic Contract Management Board meetings, this report be brought to the committee on a quarterly basis.**

13. Annual report on complaints received into alleged breaches of the Code of Conduct (AI 14)

(TAKE IN REPORT)

The Deputy Chief Executive introduced the report and said that no particularly serious breaches had been referred this year. Some complaints had been referred for investigation and had not yet been concluded.

He said that he felt it would be helpful for members to receive specific additional training on how to handle social media, for example Twitter, as this was an area which seemed to be triggering complaints.

The chair said that he felt that the system works well and that his experience when sitting on sub-committees to consider complaints was that these were carried out in a non-party political way and that all members acted impartially.

The Deputy Chief Executive also mentioned that additional training for members would be useful on declarations of interests and also on rules about members not being permitted to film members of the public in the council chamber.

RESOLVED that members of the committee

- (1) Noted the report;**
- (2) Considered whether any further action is required by them and instructed the Deputy Chief Executive to arrange additional training for members on social media, rules around filming in the council chamber and making declarations of interests.**

14. Whistleblowing Report (AI 15)

(TAKE IN REPORT)

The Deputy Chief Executive introduced the report and said that the system appeared to be working well in that people are whistleblowing which indicates that they know about and use the process. He confirmed that the whistleblowing procedure was different from grievance procedures and work related matters.

He referred to the two incidents outlined in the exempt appendix and said that the practices referred to would probably not have been discovered but for the whistleblowers.

RESOLVED that members of the committee

- (1) Noted the report;**
- (2) Considered whether any further action was required by them.**

15. Data Security Breach Report (AI 16)

(TAKE IN REPORT)

The Deputy Chief Executive introduced the report which informed the committee of data security breaches and actions agreed or taken since the last meeting. He advised that the incidents predominantly arise from human error. A great deal of training is undertaken and further training is given as required. He said that more training needs to be given to cover situations when paper is taken out of PCC buildings. The Deputy Chief Executive summarised the specific data breaches mentioned in the report and gave further information as necessary. He advised that when there is a breach it was essential to action immediately in order to minimise the risk. It was vital that the Information Commissioner's Office (ICO) should be notified as soon as possible in order to mitigate risks of a higher fine being imposed because the reporting of the incident was delayed.

RESOLVED that members noted the breaches by reference to exempt Appendix A that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).

The meeting concluded at 5.20 pm.

Councillor Simon Boshier
Chair