

## **GOVERNANCE & AUDIT & STANDARDS COMMITTEE**

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 3 February 2017 at 11.30 am at the Conference Room B - 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](http://www.portsmouth.gov.uk).)

### **Present**

Councillor Ian Lyon (in the chair)  
Councillor Scott Harris (Vice-Chair)  
Councillor John Ferrett  
Councillor Frank Jonas  
Councillor Leo Madden  
Councillor Hugh Mason

### **Officers**

Michael Lawther, Deputy Chief Executive, City Solicitor  
and Monitoring Officer  
Jon Bell, Director of HR, Legal and Performance  
Julian Pike, Deputy Section 151 Officer  
Michael Lloyd, Directorate Finance Manager  
Elizabeth Goodwin, Chief Internal Auditor  
Paul Somerset, Audit Manager  
Greg Povey, Assistant Director of Contracts,  
Procurement and Commercial and Finance and  
Information Service  
David Moorman, Contract Management Business  
Partner

### **External Auditors**

Helen Thompson, Executive Director  
Jo Taylor, Manager

#### **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 4 November 2016 (AI 3)**

**RESOLVED that the minutes of the meeting held on 4 November 2016 be confirmed and signed by the Chair as a correct record.**

**4. Updates from previous meeting (AI 4)**

The City Solicitor said that a briefing paper on cyber security will be brought to the next briefing meeting.

The City Solicitor said that compliance regarding the gifts and hospitality register needs to be improved. He said that he would make arrangements to remind staff of their obligations to report such offers through internal communications.

With regard to the emergency conditions survey the City Solicitor said that he had not yet circulated this information but would do so.

The Chair asked whether the contract procedure rules had been amended following the last meeting (page 70 of the documents pack refers) and the City Solicitor confirmed that this is a work in progress.

**5. Reports from External Auditors - Annual Certification Report 2015/16 and Progress Report Jan 2017 (AI 5)**

(TAKE IN REPORTS)

The Chair welcomed the external auditors to the meeting and Helen Thompson introduced Jo Taylor who would be attending G&A&S meetings in future.

With regard to the Certification of Claims and Returns annual report, 2015-16, Ms Thompson said there had only been a very low number of errors and said these were outlined under paragraph 1 - Housing benefits subsidy claim. She said the authority should take this as a positive result as benefits are becoming more complex and the scope for error is greater.

In response to a query, Ms Thompson said the procedure follows a programme set out by the Department of Work and Pensions. An initial sample of 20 was checked in each benefit case. If any errors were found, the sample was increased by another 40 cases.

Members asked that a response from the relevant Director should be included in future so as to put the findings into context.

Members noted that the external audit fee was lower than that for the previous year.

Ms Thompson then introduced the External Audit Progress report stating that the overall work programme relating to the 2015/16 financial year would be complete once the outstanding objection from a member of the public regarding PCC's use of a lender option borrower option loan had been concluded. The conclusions would be shared with PCC and the objector once the work was completed.

With regard to a query about MMD Shipping Services Ltd, mentioned in the report, Michael Lawther agreed to prepare a briefing note.\* The External

Auditors said this had to appear in their Plan and the matter would be looked at again at the end of the year.

Members noted the reports from the External Auditors.

\*Since the meeting, it was agreed that a briefing session would be arranged about this matter.

## **6. External Audit Arrangements after 2017 - 18 (AI 6)**

(TAKE IN REPORT)

Michael Lloyd introduced the report explaining that the Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management and accounting practices meet the relevant statutory and professional requirements.

The Public Sector Audit Appointments (PSAA) was originally established to operate the transitional arrangements following the closure of the Audit Commission and is an appointing person. Local authorities will need to opt in to the appointing person arrangements by 9 March 2017. An alternative to this is set out in paragraph 4 of the report. The advantages of using a PSAA are also set out in that paragraph.

Mr Lloyd explained that the decision had to be taken by full Council following a recommendation from this Committee.

In response to queries the following matters were clarified

- Mr Lloyd was not aware of any council pursuing alternative options as set out in paragraph 4 of the report
- More than 200 authorities had already opted in to the appointing persons arrangements made by PSAA
- Confirmation was given that the s151 officer was content that proper procedures and consideration had been given to this matter prior to the recommendation set out in the report being made.

**RESOLVED That Governance and Audit and Standards Committee considered the report and recommended to Council that it opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.**

## **7. Treasury Management Monitoring Report (AI 7)**

(TAKE IN REPORT)

Michael Lloyd introduced the report which informs members and the wider community of the Council's treasury management position at 31 December 2016 and of the risks attached to that position. Paragraph 4 of the report outlines the key risks associated with the council's treasury management operations.

Mr Lloyd drew members' attention to paragraph 3 of Appendix A which set out that the Council rescheduled a £10.5m loan in September 2016. The effect of the rescheduling was to replace a 15 year equal instalment of principal loan

with a 50 year maturity loan and to reduce the interest rate from 4.52% to 2.09% in return for the payment of a premium of £3.2m. This has generated an annual saving of £47,000 per annum after taking account of the cost of financing the premium and in overall terms resulted in a total saving (in net present value terms) of £1.1m.

In response to a query about how much the interest rate had been effectively reduced after taking account of the penalty premium, Mr Lloyd said it was a fairly small reduction. The Chair asked that future reports should include the effect of any penalties.

Paragraph 4 of the Appendix set out the Council's investment activity. The average return on the Council's investments for the first nine months of 2016/17 was 1.12%. This compares with 1.09% for the first four months of 2016/17. Mr Lloyd advised that there were some instances where the Council inadvertently contravened its Treasury Management Policy as set out in paragraph 4.

In response to questions, it was confirmed that as the contraventions were not pre-planned, there was no decision by anyone to agree in advance to the investments that were not in accordance with the Policy. The responsibility for managing the consequences of these investments rested with the S151 Officer. There followed a discussion about whether or not it was possible to withdraw from the contracts by virtue of a break clause. The Chair said that the Leader of the Council should be consulted when there are departures from the Treasury Management Policy.

A query was raised with regard to the investment in a single AAA rated fund at variance with the Treasury Management Policy and it was confirmed that this had not been appreciated at the time the investment was made.

The City Solicitor said that he would arrange for a formal response to be provided about the issues that had been raised.

It was confirmed that the Treasury Management Policy would be brought to this Committee after which it would go to Cabinet and full Council.

The Chair thanked officers for bringing these matters to the attention of the Committee.

**RESOLVED that the actual treasury management indicators set out in the report in paragraph 3 (a) to (g) for the third quarter of 2016/17 be noted.**

## **8. Local Government Ombudsman Complaints 2015/2016 (AI 8)**

(TAKE IN REPORT)

The City Solicitor introduced the report saying that overall there have not been many complaints. However it was never good to be complained about.

Members of the committee

- requested that in future Plymouth should be included as this authority was considered to be the best comparator to Portsmouth.
- requested that in future the percentages should be shown as well as just the figures.

- asked that directorates where the complaints had been upheld be identified in future
- asked that children's services and education be shown separately.

Members were pleased to note that there were proportionately fewer complaints in planning and development as compared with other authorities.

Members were advised that full details of the two complaints that were upheld are shown on the Ombudsman Complaints website.

Members noted the report.

## **9. Corporate Complaints Received (AI 9)**

(TAKE IN REPORT)

The City Solicitor introduced the report which provided the committee with information regarding complaints received by Portsmouth City Council during quarter one 2016/17. He advised that there had been a slight increase in the number of complaints and that these were broken down by service. In response to a query, the City Solicitor confirmed that he considered the processes that were in place were effective and that the complaints were robustly handled.

Members noted the report.

## **10. Audit Performance Report to 3 January 2017 (AI 10)**

(TAKE IN REPORT)

The report updated the committee on the internal audit performance for 2016/17 to 3 January 2017 against the annual audit plan and highlighted areas of concern and areas where assurance can be given on the internal control framework.

The Chair queried the two percentages mentioned in 5.1 of the report and 7.1 of the report as one said 78% and one said 74%. It was confirmed that the correct percentage that should have been used on both occasions was 78% as Staffing Off Contract had been added between the original date of the meeting and the actual date.

The Chair raised concerns about paragraph 5.3.7 as audit work for external clients should not in his opinion be at the expense of audit work inside the council. The CIA explained that PCC's audit coverage was within the agreed s151 tolerance level, i.e. between 20% - 24% of the audit universe.

Jon Bell said that the statutory responsibility for ensuring effective internal audit arrangements were in place falls on the section 151 Officer. The external auditors also need to place reliance on the internal auditors so that provided another check and balance. The Chair said that he was concerned that there are serious matters that fall between internal and external auditors. One consequence of this appears to be that Greg Povey is having to do more of the value for money work which may not be cost effective.

The Chair then circulated a letter that he had been asked to sign which asked him to verify that certain things are being carried out correctly. However he wanted to receive assurances before the next meeting in order that he can sign the letter. The City Solicitor said that internal audit provided a very good service which is why people outside the council are asking for their services. He said that audit is moving into a different marketplace and is generating income for the council. He confirmed that he and Jon Bell would ensure that internal audit were given enough resources to cope successfully with the work.

The Chair said that with regard to paragraph 6.4.2, he was not happy about the housing and property service responses. He asked what the internal auditors could do if they felt the responses received were unacceptable. The chief internal auditor said that if internal audit was in total disagreement with comments made then that would be factored in to the report. The chief internal auditor confirmed that on the very few occasions that she felt that the clients do not accept that there are risks, then she would escalate the matter internally to the Corporate Governance Board and then it would be escalated further to external auditors and would be brought to this committee. With regard to schools, the chief internal auditor asked whether there was any information about schools that should be omitted in future. The Chair said that he was content to leave things as they were.

The Chair said he would like the Assistant Housing Manager to come to the next meeting in order to explain the responses given in the report. With regard to the no assurance rating given on the property and housing resident development, members queried how matters had got to this stage without being noticed before and how much this service cost the Authority.. The chief internal auditor said that this had not been looked at by Internal Audit for a while and that the service had responded positively to the issues raised. The chief internal auditor said that she would bring back information on how much that particular service is costing. She also said that there were higher risk areas than value for money assessments. She said that managers should take the lead in managing their budgets' performance and demonstrate that their services provide value for money, as this was not audit's responsibility, but could be included in some reviews.

Greg Povey said that value for money was checked during the procurement phase. If the contract was for a long duration, then as the contract goes on there is a continuing need to test for value for money to ensure that this is still being maintained as sometimes things change. It was agreed that further discussion about where responsibility for value for money belonged would take place outside the meeting.

Jon Bell confirmed that it was every officer's duty to ensure that value for money was achieved, and also that the Strategy Unit had previously provided value for money analysis to the committee, and could do so again if required. It was confirmed that the internal auditor has 11 officers to carry out the work of that section.

The Chair thanked the officers for their report.

**RESOLVED that**

- (1) members noted the audit performance for 2016/17 to 3 January 2017**
- (2) members noted the highlighted areas of control weakness for the 2016/17 audit plan**
- (3) members approved the proposed audit and counter fraud strategy for the use of audit resources for 2017/18**

**11. Performance Management Update (AI 11)**

(TAKE IN REPORT)

Kelly Nash introduced the report which outlined significant performance issues, arising from Q2 performance monitoring, to Governance and Audit and Standards committee and highlighted areas for further action or analysis. The report provided very comprehensive information about most of the directorates.

The Chair and Vice chair of the committee both expressed regret that there was no information provided from the Housing and Property directorate as this was an important area. The Chair said that all officers in the report seem to be saying that all projects had been delivered on time and on budget. He sought assurance from finance that all contracts are being pursued in accordance with the budget and that there were no underspends going forward.

Julian Pike said that finance has made it clear to officers that they do not expect projects to result in underspends going forward. However projects may change. The Chair said that there is a procedure to follow and he would like it to be confirmed in the document that the money that members have agreed should be spent, is being spent. He said that it was not acceptable to make a provision and then to have a massive underspend. This was because it may affect future budget plans.

Julian Pike said that regular budget monitoring took place for this very reason. The Chair asked in that case why was there a 40% underspend during the last financial year? Julian Pike said that this was largely due to changes in the HRA account. The Chair said that the Committee would be looking closely at any underspends going forward as officers needed to realise that they should spend what members asked them to spend and that a 40% underspend was not acceptable.

The following responses were made to queries raised by Members

- With regard to page 177 concerning the Dunsbury Hill Farm project, it was noted the rating is on red and members wanted to know why. The

City Solicitor said that the delay concerned the adoption of the highway by Hampshire County Council as there was a disagreement over the standard to which the road had been finished. Basically the finish should be to the standard agreed in the tender documents. The Chair asked how much any negotiation and subsequent agreement was going to cost and the City Solicitor said that he would find out. Fuller information on the situation would be circulated outside of the meeting, but the issue is not of significant concern.

- Members noted that they had commented on the scant information provided in the past by Adult Social Care and commented that this had not really improved. Kelly Nash said that much more information had been provided for the next quarter that would be brought to the next meeting. The Chair said he was keen that directors took responsibility for these reports. It was agreed that Kelly Nash would circulate the Quarter 3 information after the meeting.
- Members of the Committee said that the information was very useful but asked that comments were provided where the ratings were on amber or red
- The Chair asked that acronyms should not be used - such as RPC.
- The Chair asked whether EBS was competitively priced. The City Solicitor said an exercise had been carried out a year ago and he would provide an update to the Chair.

The Chair thanked Kelly Nash for her very comprehensive report and asked her on behalf of the Committee to thank all those who had contributed to it.

#### **RESOLVED that the Committee**

- 1) **noted the report;**
- 2) **noted the overall improvement in quality of reports , and the commentary from the Deputy Chief Executive at section 5**
- 3) **commented on the performance issues highlighted in section 3, including agreeing if any further action is required**
- 4) **Agreed the actions proposed in section 4**

#### **12. Whistleblowing Report (AI 12)**

(TAKE IN REPORT)

The City Solicitor introduced the report which updated Members of the Committee on the nature and handling of any whistleblowing concerns which have been raised in the past year.

#### **RESOLVED that the Committee**

- (1) **noted the report**
- (2) **considered whether any further action is required by them.**

#### **13. Annual Complaints against Members Report (AI 13)**

(TAKE IN REPORT)

The City Solicitor introduced the report which updates Members of the Committee on current progress in relation to complaints which allege that Councillors may have breached the Code of Conduct. He advised that the appendix included as much information as possible in open session.

In response to queries, the City Solicitor

- confirmed that most complaints against Councillors were from members of the public and very few were complaints by one member against another.
- Confirmed that the word "style" as included in the appendix referred to the style of verbal communication.

**RESOLVED that the Committee**

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

**14. Exclusion of Press and Public (AI 14)**

**RESOLVED that in view of the contents of the following items on the agenda, the committee adopted the following motion**

**"That under the provisions of Section 100 A 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 following items on the grounds that the appendices contain information defined as exempt in Part 1 of Schedule 12 A to the Local Government Act 1972" exemptions paragraphs 1, 2 and 3."**

**15. Procurement Management Report - Information (AI 15)**

(TAKE IN REPORT - FOR INFORMATION ONLY)

Greg Povey introduced the report that provides evidence to allow the committee to evaluate the extent that Portsmouth City Council is achieving value for money in its contracts for goods, services and works.

He explained the various sections in the report. He said he did not have any particular concerns other than that in section 3, he felt that the increase in percentage of total spend covered by waiver shown in Public Health - going from 36% to 77% - was high. However, there had been staff changes and the situation would be monitored going forward.

The Chair commented that directors spending by waiver should find it uncomfortable to do so.

Matters relating to the information contained in the exempt appendices were discussed but basically it was agreed the matters raised had been satisfactorily dealt with.

Members noted the report which was for information only.

**16. Data Security Breaches Report (AI 16)**

(TAKE IN REPORT)

Michael Lawther introduced the report which informed the Committee of Data Security Breaches and actions agreed/taken since the last meeting.

He said that large fines could be imposed by the Information Commissioner's Office (ICO) if errors occurred so continued monitoring was essential.

Members raised no queries in relation to the exempt appendix.

**RESOLVED that Members of the Governance & Audit & Standards Committee 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 1.45 pm.

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Councillor Ian Lyon  
Chair