

DRAFT

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 3 March 2017 at 10.30 am 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 Ian Lyon (in the chair)
Councillor Scott Harris (Vice-Chair)
Councillor John Ferrett
Councillor Frank Jonas
Councillor Leo Madden

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

External Auditor

Jo Taylor, Manager

17. Apologies for Absence (AI 1)

Apologies for absence were received on behalf of Councillor Hugh Mason.

18. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

19. Minutes of the Meeting held on 3 February 2017 (AI 3)

RESOLVED that the minutes of the meeting held on 3 February 2017 be confirmed and signed by the chair as a correct record.

20. Updates on actions identified in the minutes (AI 4)

The Chair asked that actions points from the minutes should be produced in a separate document and kept with the minutes.

The Chair referred to page 7 of the document pack where mention was made of a briefing session on MMD being arranged and asked that this be progressed.

With regard to the issues raised on page 8 of the document pack concerning the Treasury Management Monitoring Report, the City Solicitor said that he would brief the Chair about progress.

21. Audit Plan for 2016-17 External Auditors (AI 5)

(TAKE IN REPORT)

Jo Taylor introduced the report which summarises the external auditor's initial assessment of the key risks driving the development of an effective audit for the Council and outlines the auditor's planned audit strategy in response to those risks. An overview of the Audit Plan is outlined on page 18 of the documents pack. Ms Taylor said that they had identified one significant risk under the section headed Financial Statements Audit but said this was a standard risk on all audit engagements being the risk that management is able to override controls which otherwise appear to be operating effectively. There are also a number of other risks that will require audit focus during 2016/17 including:-

- Changes to the presentation of the Comprehensive Income and Expenditure Statement
- Review of the models which provide the accounting entries for the Highways and Waste PFI schemes
- The ongoing EU investigation into transactions between the Council and MMD (Shipping Services) Ltd and
- The Council's judgment that harbour accounts for the Commercial Port are not required.

More detail about these risks is contained in Section 2 of the Plan.

A discussion took place about the checks and balances that were in place to prevent blurring expenditure that was revenue and that which was capital ie to prevent items being posted to revenue when they were capital and vice-versa. In certain cases it would ultimately be up to the S151 officer to decide to which category items were posted. It was confirmed that an addition to the Capital Programme could only be made with Council approval.

The external auditor said that although they have identified certain risks, this was part of their work and they were not expecting to find anything untoward. They need to be aware of the processes the Council has in place and be assured that figures are posted to the correct accounts. Financial appraisals were undertaken and the advice of professionals such as surveyors would be sought to assist in deciding whether expenditure was capital or revenue.

With regard to a query about the Harbour Accounts, Julian Pike said that a meeting about this issue had taken place in February. The accounts were not yet completed but work had begun to see what would be needed in order to complete them.

Paragraph 4.2 of the report stated that uncorrected audit misstatements greater than £538,000 would be reported to the Committee. Members were advised that to reduce the threshold for reporting would mean a significant

amount of extra work for the auditors and this would then have to be reflected in the audit fee.

With regard to a query about who audits the auditors, (paragraph 5.2) members were advised that they work to internal ethical standards but are also inspected by Institute of Chartered Accountants in England and Wales (ICAEW) (the successors to Financial Reporting Council) as well as external regulatory bodies.

The external auditor explained that the Audit Letter seeking assurances has to be signed by the Chair of this Committee after 31 March and the audit will not be completed until that is done. The external auditor said that a copy of the Audit Letter would be sent to Committee members.

In response to a query about the second bullet point on page 23, this was a reference to the performance management reports that come to the committee on a regular basis. In future these reports will have a front sheet that will make it clear which departments have provided the information requested and which have not.

External Audit would raise any issues they had concerns about.

A significant risk was also identified under the heading Value for Money Audit which is focussed around the Council's arrangements to ensure decision making is properly informed. More detail about this is contained in Section 3 of the Plan. Ms Taylor said that the auditors were aware that there are many changes occurring across the organisation at present and that external audit want to ensure everything is in place to manage these changes and to check that the Council is getting value for money.

With regard to audit fees, these had been set in accordance with the PSAA scale fee. Ms Taylor said that additional fees could be incurred if the auditors had correspondence with members of the public as had happened during the last year as an objection had been received. It was not possible to charge the individual/s concerned and although members of the public could be advised how much the objection cost, the name of the person/s concerned could not be disclosed.

With regard to Private Finance Initiative (PFI) mentioned on page 20, the external auditor said they would be looking at 2 PFIs this year and would be doing more in depth work than last year.

The Chair thanked the external auditors for their report and for tailoring it to Portsmouth.

22. Treasury Management Policy 2017/18 (AI 6)

(TAKE IN REPORT)

The purpose of the report is to obtain the Council's approval for 2017/18 to the Treasury Management Policy Statement which includes the Annual Minimum

Revenue Provision for Debt Repayment Statement and the Annual Investment Strategy.

A discussion took place in relation to paragraph 8.4 concerning the Annual Minimum Revenue Provision (MRP) for debt repayment. Officers confirmed that the Council's policy on MRP for debt repayment was in line with government guidance and is also prudent as the debt cannot be paid off early without incurring a penalty. Officers said that the Council is providing for repayment of the debt through its assets. There is no specific loan for individual assets - there is a pool of debt. When an asset is acquired through borrowing, money is set aside throughout the asset's economic life to repay the debt. The Council maintains a pool of debt and loans are not linked to individual assets. If the asset's economic life is shorter than the Council's debt maturity profile, the funds set aside may be used to provide the cash flow to acquire a further asset".

In response to queries, the following matters were clarified

- With regard to investing in universities, there is no specific government guidance about this. The Council is able to decide what it invests in and this achieves diversity of investments -it is not an investment to build assets.
- With regard to 3.1d (iv) concerning buying and selling foreign currency, members asked about the volatility of these markets. Officers said that the council does not seek speculative returns in the foreign currency markets but sometimes contracts are denominated in foreign currencies - usually concerning the port, and it can be beneficial to buy Euros early to fund these projects and avoid the associated currency risk.
- With regard to page 63, item 10, the fee paid to these consultants is around £5 - £6k per annum.
- With regard to page 73, it was confirmed that MMD does not have a credit rating but it is a company that the Council owns and controls. Lending to MMD is through the Capital Programme. The City Solicitor confirmed that proper commercial rates are being repaid in a proper way.

RESOLVED that the recommendations set out in paragraphs 3.1a) to e) and 3.2(i) to (iv) be noted.

23. Audit Performance Status Report for Audit Plan to 6 February 2017 (AI 7)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report which updates the Committee on the internal audit performance for 2016/17 to 6 February 2017 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework. She advised that Appendix A shows the areas of assurance on audits completed since the last meeting and Appendix B shows the results of follow-up audits.

In response to queries

- In relation to paragraph 5.3.1, the committee was advised that schools are not obliged to come to the City Council to complete their audits.
- The Chief Internal Auditor considered the process to be robust enough as deferment is usually for a reason such as the implementation of a new system. For internal clients, the audit is never removed - just deferred and if there was any suspicion that anyone wanted to hide something, a conversation would take place with the director concerned. The Chief Internal Auditor had no recollection of this ever having occurred though. Any deferral request is usually as a result of organisational change. There have been occasional instances where Internal Audit have refused to defer an audit.

The Chief Internal Auditor said that the Council generally responds well to areas of concern. With regard to the significant cuts that have been made, extra layers of control have been introduced to cope with the shift in responsibilities and the impact on the internal control environment. Members asked what assurances could be given to ensure the Council is coping with the changes. The Director of HR, Legal and Performance said that much work is going on in this regard. He was confident that through the EBS system and risk management, directors and managers are aware of their responsibilities. He said it was important that the Chief Internal Auditor, the Corporate Performance Manager and the Assistant Director of Contracts, Procurement and Commercial are all alert to these risks. The City Solicitor said that where audits show "no assurance" they are prioritised and matters are dealt with quickly by highly competent staff. A follow up audit is also carried out. With regard to Children's and Adults' Services, there are regulatory bodies such as Ofsted which have more onerous requirements to be fulfilled than within the City Council so this acts as an additional safeguard.

RESOLVED that Members noted

- (1) the Audit Performance for 2016/17 to 6th February 2017**
- (2) the highlighted areas of control weakness for the 2016/17 Audit Plan**

24. Quarterly Performance Management Update (AI 8)

(TAKE IN REPORT)

The report is part of the regular series of quarterly reports highlighting significant performance issues across the organisation and the first compiled against the areas identified in the previous baseline report presented to the committee in June 2016.

During discussion

- It was suggested that the appendices should be shared with the individual portfolio holders in some way - perhaps informally on a regular basis and depending on the portfolio holder, could be taken to their decision meetings.

- It was suggested that perhaps too much information was contained in the report and that consideration could be given to focusing on two directorates at each meeting. No decision was taken on this.
- It was suggested that perhaps directors could peer review one another's directorate's performance. No decision was taken on this.
- Members were concerned that educational standards in the city were not consistently good. Faith schools reached higher educational attainment than other schools in the area and members wanted to know what could be done to improve the situation.

Section 4 of the report is set out below as the proposed next steps form part of the recommendations.

1. As reported, improvements to reporting have been made since the last quarter. The summaries now focus much more strongly and analytically on the core performance indicators, and include a sharper focus on risks and projects. This will continue to be developed for the next quarter.
2. The next significant development for reporting will be the inclusion of reporting from Portsmouth International Port.
3. It is also necessary to consider more strongly the external perspective in the reports - currently these are focused on internal organisational process and more could be done to explore what this is achieving from a customer perspective.
4. Presentationally, future reports will include a table of contents and confirmation of when the last report was submitted when there are any omissions.

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**

25. Member Training - Information Report (AI 9)

(TAKE IN INFORMATION ONLY REPORT)

The Chair agreed to vary the order of the agenda to take this item immediately after agenda item 5, but the item is being minuted in the order it appeared on the agenda.

A deputation on this item was made by Ms Hilary Reed and included the following

- A request for specific inclusion of public sector equality duty training in the councillor training programme.
- Her experience and monitoring of Council performance of the equality duty is of inconsistent application and also inconsistencies among councillors either to challenge or support EIAs

During discussion

- It was confirmed that members were aware of their duty to look at EIAs and this is part of their initial training. The EIA process was the subject of a report in November and the Chair said the committee had agreed to receive an annual summary report on the process.
- It was confirmed that this report was about training in general.
- Members agreed that training should be of a good standard and that this was not always the case.
- Members were concerned that there were members who had not received training on some things. They considered that more dates and times should be offered.
- Members said that there were no sanctions if they did not attend training other than not being allowed to sit on certain committees until they had received the training. Some training was too general for this sanction to apply.

Members asked that a more detailed decision report about member training should be brought to the next meeting to try to address some of the feedback that had been provided.

26. Independent Remuneration Panel (AI 10)

The City Solicitor introduced this item.

Under the Local Authorities (Members Allowances) (England) Regulations 2003, Portsmouth City Council is required to have an Independent Remuneration Panel to review the Members' Allowances Scheme. Where an Authority has regard to an index for the adjustment of allowance (as is the case with this Authority) where the scheme is linked with any annual adjustment which the officers receive, it must further review the scheme within a four year period.

In accordance with recommended practices, an Independent Remuneration Panel was formed to review the Portsmouth City Council Members' Allowances, as set out in the Constitution.

The following documents were circulated:-

- Membership details of the Independent Remuneration Panel (IRP)
- A summary of how those authorities who provided responses to the 2016 South East Employers' Survey index- linked their schemes, if at all.
- Recommendations from the Independent Remuneration Panel (IRP) that had met in February 2017.

The City Solicitor explained the process for the review which was to adopt a two stage process. The first stage was to recommend that members receive an index-linked increase in line with Portsmouth City Council staff pay awards. The second stage was to carry out a general review of the Members' Allowances Scheme with a view to making further recommendations (via Governance & Audit & Standards Committee) to a future Council meeting.

A short discussion took place during which

- it was confirmed that reviews have to take place

- it was confirmed that the Council was the body that had power to adopt the index-linked arrangement with staff pay awards but that the recommendation had to be made via this Committee.
- Members expressed differing views on whether or not they should accept any increase.

RESOLVED that Governance & Audit & Standards Committee

- (1) Noted the Independent Remuneration Panel's decision to adopt a two stage approach in their review of the Members' Allowances Scheme**
- (2) Recommended to full Council that the first stage (to continue to apply to Members' Allowances the index-linked arrangement with Portsmouth City Council staff pay awards) be adopted at the Council meeting on 21 March 2017.**

The meeting concluded at 1.00 pm.

Chair