

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

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 2 February 2018 at 10.30 am at the Executive Meeting Room - Third Floor, The Guildhall

(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 John Ferrett (in the chair)  
Councillor Scott Payter-Harris (Vice-Chair)  
Councillor Leo Madden  
Councillor Hugh Mason  
Councillor Neill Young

### **Officers**

Julian Pike, Deputy Head of Finance & S151 Officer  
Michael Lloyd, Directorate Finance Manager (Technical & Financial Planning)  
Michael Lawther, City Solicitor, Deputy Chief Executive  
Elizabeth Goodwin, Deputy Chief Internal Auditor  
Paul Somerset, Principal Auditor  
Jon Bell, Director of HR and Performance  
Greg Povey, Assistant Director of Contracts, Procurement and Commercial  
David Moorman, Contract Management Business Partner

### **External Auditors**

Helen Thompson, Executive Director, Ernst & Young  
David White, Manager, Assurance - Government and Public Sector, Ernst & Young.

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

There were no apologies for absence but Councillor Young said that he may have to leave the meeting early.

The Chair welcomed everyone to the meeting. He advised everyone that the meeting today would be livestreamed and would be available on the website. The Chair also read out the housekeeping rules relating to evacuation procedures in the event of an emergency.

Introductions were then made round the table.

#### **2. Declarations of Members' Interests (AI 2)**

There were no declarations of members' interests.

The Chair advised that two members of the public had asked to make deputations. He invited Mr Jerry Brown to make his deputations on item 6 and item 10 which he then did. Ms Hilary Reed was then invited to make her deputation on item 10 which she then did.

(The full contents of these deputations are included in the live webcast.)

**3. Minutes of the Meeting held on 27 October 2017 (AI 3)**

**RESOLVED that the minutes of the meeting held on 27 October 2017 be confirmed and signed by the chair as a correct record.**

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

In response to a query about the standing orders and constitution revision, the Deputy Chief Executive advised that these items would be on the March agenda for this meeting.

With regard to page 2 bullet point 4 of the minutes (concerning the PCC Contract Highways PFI) it was confirmed that the information requested had been circulated.

With regard to reference on page 4 to the PSAA (Public Sector Audit Appointments) the comment on their website concerning the reasons why PCC had not concluded its statement of account by 30 September, had been agreed with Mr Chris Ward.

With regard to page 8 of the minutes Mr Lawther confirmed that the appendix to the gifts and hospitality report had been amended.

With regard to any non-compliance data by directorate mentioned on page 10 of the minutes, the Deputy Chief Executive said that he understood that this had been dealt with.

**5. External Auditor's report - Grant Claim Certification (for information) (AI 5)**

(TAKE IN REPORT)

Mr David White introduced the report which summarised the results of the external auditor's work on the city council's 2016/17 claim. He explained that local authorities claim large sums of public money in grants and subsidies from central government and other grant paying bodies and must complete returns providing financial information to government departments. From 1 April 2015, the duty to make arrangements for these and to prescribe scales of fees for the work was delegated to the Public Sector Audit Appointments (PSAA) by the Secretary of State for Communities and Local Government. Section 1 of the report outlines the results of the 2016/17 certification work

and highlights the significant issues. Section 2 of the report summarises fees for certification work.

In response to questions the following matters were clarified

- The Chair was pleased that since the briefing the extrapolations had been reviewed and corrected by the external auditors where appropriate.
- With regard to the errors that had been found in benefits claims, Helen Thompson the external auditor said she did not believe this was a result of lack of staff training but just that it is a very complex area with many people moving in and out of the benefits system. However the benefits team were keen to look at their working methods.

Following a discussion about the accuracy of benefit claims a query was raised about the percentage checks of new/revised cases and whether housing benefits staff carry out such checks themselves rather than relying on external audit to do so. Jon Bell said that he would ask the relevant director to provide some information about the accuracy of benefit claims including statistics and information about what is being done to manage and improve accuracy.

The Chair noted that the government is making councils responsible for appointing their own reporting accountants to undertake the certification of the housing benefits subsidy claim from 2018/19. Helen Thompson said that Ernst & Young would be pleased to undertake this work on behalf of the council and could provide a quotation.

The report was noted.

## **6. External Auditor's report - Progress Report (AI 6)**

(TAKE IN REPORT)

Helen Thompson introduced the report. She advised that the fee for the additional work required to review the lender option borrower option (LOBO) loans in response to an objection from a local elector in 2015/16 had now been agreed.

With regard to the 2016/17 audit, there had been resourcing challenges for the external auditors which had led to delays in resolving a number of errors that were identified towards the end of the audit. Ms Thompson confirmed that work on the outstanding areas of the financial statements had now been completed, the required amendments had been made by the Finance team and the audit opinion and certificate were signed on 22 January 2018. Ms Thompson said that the annual audit letter for 2016/17 will be completed and agreed with officers following the conclusion of the audit and that it is intended to be presented to the March meeting of the Governance & Audit & Standards Committee.

The Chair confirmed that he had signed the statement of accounts. He also said that there was recognition by the external auditors that the audit could have been carried out more efficiently and that the audit needs to be properly structured going forward.

The report was noted.

## **7. External Auditor's report - 2017/2018 Audit Plan (AI 7)**

(TAKE IN REPORT)

Helen Thompson introduced the report saying that the Plan summarises the initial assessment of the key risks driving the development of an effective audit for the council and outlines planned audit strategy in response to those risks. Section 1 sets out the overview of the 2017/18 audit strategy. She drew attention to the revised timetable for accounts production and audit completion for 2017/18. This has changed to draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. As a result it will be challenging for the auditors to deliver to all councils and as a result strict timetables will have to be adopted. Basically this will mean that agreed start and finish dates would be necessary for all councils employing Ernst & Young and that overrunning audits will be re-scheduled in order not to delay the start of the next audit.

In response to a query about whether PCC's internal processes were robust enough to cope with any potential fraudulent activity by managers, Mr Greg Povey said that at least in relation to tenders, anything for an amount over £100,000 requires a declaration form to be completed and signed by officers. He was not aware of any issues regarding fraud. Helen Thompson said that external auditors look at the overall system of internal control and that they had not identified any issues. Their experience also is that the whistleblowing procedure in PCC seems to be effective. There is always low level fraud potential in any local authority.

The Chief Internal Auditor confirmed that whistleblowing in PCC is very robust and that internal audit works closely with David Moorman in Procurement and believes the systems to be robust.

In response to a query, Helen Thompson said that the auditors expect the council to carry out its own assessments as to whether any of its subsidiary/group arrangements are material to the financial statements of the Council as a whole. If a company becomes material, the external auditors may set up instructions for auditing that company. She said that this situation was quite rare in local government. The external auditors would probably rely on the audit report of the company's auditor where separate group audit instructions were not required. Much would depend on the size and complexity of the group concerned. In any event a report would be made to this committee as there would be fee implications. With regard to pension fund asset valuations the external auditor relies heavily on work done by the auditor of Hampshire Pension Fund which is separately audited.

With regard to a query on the classification of investment properties, Michael Lloyd confirmed that this is nothing to do with the investment portfolio that the council is currently building up. The external audit report refers to assets PCC has held for some time which he believes has already been dealt with.

With regard to reference to Tom Southall a council employee, Helen Thompson confirmed that there is no conflict of interest as for external auditors purposes, Tom Southall is an external specialist and there are no issues with this.

The Chair thanked Helen Thompson and David White for their report and for their work.

The report was noted.

## **8. Audit Performance Status Report to 8 January 2018 (AI 8)**

(TAKE IN REPORT)

Lizzi Goodwin, Chief Internal Auditor, introduced the report which updates the committee on the internal audit performance for 2017/18 to 8 January 2018 against the annual audit plan. She advised that to date four no assurance audits had been identified with no critical risks raised. Information on three of the no assurance audits had been reported to G&A&S in previous reports and details of the fourth no assurance audit are contained within this report. She further advised that there are 68 full audits and 43 follow-ups planned for 2017/18 totalling 111 reviews. The Chief Internal Auditor drew members' attention to section 6 of the report which detailed areas of concern. This set out a new area of concern concerning information governance data sharing. She said that this was within the Deputy Chief Executive's remit and there are plans in place to deal with the situation. With regard to the Harbour School, the Chief Internal Auditor said that significant progress had been made since the original audit.

With regard to Housing & Property - resident development, although there had been some improvement there were still some issues but these were in hand.

In response to a query from Councillor Young about whether the new building work coming in would deal with some of the outstanding concerns, the Chief Internal Auditor said that she would find out and report back. In response to a query in 5.3 bullet point 8 - Liability Order Analysis, members asked for an explanation of what that meant. Paul Somerset said that this referred to ways in which people could be contacted when they owed money to the council by using alternative methods to trace them such as through library cards etc.

With regard to 5.7 bullet point 9 relating to G&A&S Committee reporting and attendance and Governance, the Chief Internal Auditor explained that this relates to her attendance at Governance & Audit & Standards meetings where certain matters may come to her attention through other reports which she may then decide to follow up.

With regard to a query about potential duplicate payments referred to in 5.8 of the report it was confirmed that although £32,000 were validated for payment, none of these were actually paid out. The Chair asked for more information about this matter and Paul Somerset agreed that he would find out and report back.

In response to a query Michael Lawther confirmed that General Data Protection Regulation (GDPR) training is mandatory and that arrangements were in place to ensure that everyone who needed the training would receive it. The Chair thanked the officers for their report.

### **RESOLVED**

**(1) that members noted the audit performance for 2017/18 to 8 January 2018;**

**(2) that members noted the highlighted areas of control weakness from the 2017/18 audit plan.**

#### **9. Treasury Management Monitoring Report for the Third Quarter of 2017/18 (AI 9)**

(TAKE IN REPORT)

Michael Lloyd introduced the report which outlines the council's performance against the treasury management indicators and informs members and the wider community of the council's treasury management position at 31 December 2017 and of the risks attached to that position.

In response to queries it was confirmed that

- In relation to the "increased exposure to credit risk" finance officers considered matters such as the types of organisation in which the investments are made and the credit worthiness of the institutions where money is deposited including paying attention to news items. The Council only places investments in institutions that are of good credit quality and meetings take place on a monthly basis to discuss these investments. The reference to an increase in PCC's exposure is simply that more money is being invested and therefore the risk increases in general terms."

The Chair thanked Michael Lloyd and Julian Pike for their report.

#### **10. Performance Management update - Quarter 2, 2017-18 (AI 10)**

(TAKE IN REPORT)

Mr Jon Bell introduced the report that had been prepared by Ms Kelly Nash who was unable to attend the meeting today. He said that any points of detail that he could not deal with would be provided at a later date. He drew members' attention to the fact that this is a quarter 2 report ie to the end of September and that matters had moved on since then and the quarter 3 report would be brought to a later meeting . He said that there was a significant amount of data included in the report.

The Chair said that the information contained in the report was driven by member requests and has evolved over time. He hoped the matters raised in the deputations today would be taken back to the directorates concerned and in particular the comments made about the RAG (red, amber, green) ratings. The Chair suggested that where for example detailed information would not be able to be answered by Jon Bell because they were particular to for example the Education directorate, it may be useful to ask relevant directors to attend a meeting in future. He suggested that queries were given to Jon Bell and then if he was unable to provide answers to them today he could take these back to the directorates concerned and provide answers outside the meeting. Greg Povey, Assistant Director of Contracts, Procurement and Commercial, took on board the comments made about not everyone understanding the IT terminology contained in the performance report and offered to provide a written narrative around the comments in future for the sake of transparency. The Chair welcomed this.

In response to questions

- It was confirmed that the insufficiency of school places being a potential risk to the local authority is information that is passed on to the Department of Education and Jon Bell agreed to provide a more detailed response to this.
- With regard to the high levels of school absence, this was a persistent problem and Michael Lawther agreed to provide a briefing note for members about potential solutions or strategies to deal with it.
- With regard to problems with PCC-owned and run residential care homes, members thought that this was disappointing. Jon Bell said that this is a national problem and there are very large workforce issues. There are many financial pressures and the entire sector is squeezed financially. Much work is going on between local authorities and the NHS. Greg Povey said that he chairs a strategic management board and a team has been formed to look into this matter. Jon Bell said he would arrange for a full briefing note to be prepared for members.
- In relation to a query about Harry Sotnick House there had been much publicity about this and the Deputy Chief Executive said that he expected more information to be included in the Q3 report.
- In response to a query about the funding for the cladding of Horatia and Leamington tower blocks, the Deputy Chief Executive said that this was an ongoing matter. Government originally said that councils should not worry about the funding required to remove cladding but negotiations about this are ongoing and the council is hoping that there will be a positive outcome.

The Chair said that the committee recognised that not all the issues raised in this report could be dealt with in the meeting but answers could be provided to members outside the meeting.

Members queried some of the RAG ratings, for example why the entry on the youth justice system which was slightly above the national average is rated red when perhaps it should be amber. In addition some of the entries that are on amber should probably be on red.

- With regard to Culture & City Development in Appendix 1 there is mention of the "review of byelaws and simplify layers of restriction require focus to get this back on track". Members said that this required clarification and a response was asked for concerning what this actually meant and what was being done about it.
- With regard to Finance & IS, members asked when the business case for the municipal energy company was expected. The Deputy Chief Executive advised that matters pertaining to the energy company had been delegated to Chris Ward and the Leader. Also members asked about the Hampshire Community bank and the Deputy Chief Executive said that he would ask Julian Pike to provide a response to this.
- Jon Bell said that with regard to the Youth Justice Board data being out of date this depends on the data and information supplied to us and it is sometimes slow to arrive.
- With regard to Harry Sotnick House, members would like an update as the information is outdated.
- The Chair listed various anomalies including
  - staffing issues/concerns about incidents in dementia
  - about the number of successful employment tribunals in the last quarter. Jon Bell said that there are some cases that are going through the system. Settlement agreements are used sparingly as HR are very diligent about these. The Chair asked for data and resolutions.
  - about RAG ratings - spending within allocated budgets looked as though deficits have increased. Children's Social Care deficit has increased and yet the RAG rating is given as green. The Chair said that he would need to be given a reason as to why this was green.
  - About the port and Brexit. This seems to be a big issue but there is very little commentary. The Chair wanted to know what contingencies had been put in place ie what these are and what the cost of them is likely to be and requested a report back on these matters.

The Chair thanked officers for the report.

### **RESOLVED that the Governance & Audit & Standards Committee**

- (1) Noted the report.**
- (2) Noted the continued improvement in quality of reports from directorates.**
- (3) Agreed further action required in response to the performance issues highlighted.**

**11. Consideration of the political balance rules in relation to the constitution of Sub-Committees considering complaints against Members (AI 11)**

(TAKE IN REPORT)

Michael Lawther introduced the report which was to ask the committee to consider whether it wishes to dis-apply the political balance rules in respect of its sub-committees which consider complaints against members and to agree that the same rules shall apply to the initial filtering panel. He explained that it was a legal requirement to bring this report to committee and to council and that the recommendations had to be agreed unanimously by all members present. Members agreed unanimously to dis-apply the political balance rules in respect of its sub-committees.

**RESOLVED that the political balance rules are dis-applied in respect of Governance & Audit & Standards sub-committees which are considering complaints against members and also the same arrangement should apply in respect of initial filtering panel membership.**

**12. Report on complaints received into alleged breaches of the Code of Conduct by Members of the Council for the calendar year 2017 (AI 12)**

(TAKE IN REPORT)

The Deputy Chief Executive introduced the report which updates members of the committee in relation to complaints which have been progressed within the calendar year 2017 and which allege that councillors may have breached the code of conduct. He said that there had been no particular trends or concerns and that the public seems to have confidence in the system. In response to a query the Deputy Chief Executive confirmed that all initial filtering panels and all sub-committee meetings have to have an independent person present.

**RESOLVED that committee members**

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

**13. Exclusion of Press and Public (AI 13)**

The Chair advised that although he was conscious that representations have been made about the committee remaining in open session for as long as possible there were some matters in the exempt appendices which he had questions about.

It was proposed by Councillor John Ferrett and seconded by Councillor Scott Payter-Harris 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 exempt appendices in items 14 and 15 on the grounds that the

appendices contain information defined as exempt in part 1 of schedule 12A to the Local Government Act 1972. This was agreed.

**RESOLVED that the meeting moved into exempt session for the exempt appendices relating to items 14 and 15.**

The Chair explained that provision had been made on the agenda to consider items 14 and 15 exempt appendices in exempt session but that he would keep the meeting in open session during discussion of the non-exempt parts of the reports.

#### **14. Data Security Breach Report (AI 14)**

(TAKE IN REPORT)

The Deputy Chief Executive introduced the report which informed the committee of any data security breaches and actions agreed or taken since the last meeting. He said that data breaches are infrequent and there is much encryption on devices. He said that most problems and difficulties seemed to occur as a result of human error.

The committee considered in exempt session the exempt appendix relating to item 14 - Data Security Breach. Members had queries about one particular breach in relation to the process and had concerns about how long it had taken for the breach to be discovered. The Deputy Chief Executive explained that this was a matter that had been discovered some time after the event and he believed that the circumstances could not now recur. The Deputy Chief Executive said that many learning points had resulted from the circumstances surrounding this particular breach.

**RESOLVED that members of the committee noted the breaches (by reference to exempt appendix A) that had arisen and the action determined by the Corporate Information Governance Panel (CIGP).**

#### **15. Procurement Management Information (AI 15)**

(TAKE IN REPORT)

David Moorman introduced the report which was for information and noting only and which provided 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. Mr Moorman said that the headline figure is that the council is achieving 98% compliance which is in excess of the compliance target of 95%.

Section 1 of the report details compliance with contract procedure rules. Section 2 of the report covers waivers awarded this quarter (with more detail provided in Appendix 2). Section 3 of the report covers spend with waiver. (Appendix 3 provides details of payments under contracts with waivers in quarter 3) Section 4 covers spend by contract size. Section 5 covers suppliers paid over £100,000 in quarter 3 by directorate. Section 6 covers

supplier performance with reports from contract managers on those contracts with a red KPI score and a list of those contracts with an amber KPI score being provided in exempt Appendix 4. Section 7 of the report covered supply and performance monitoring.

The Chair asked for details of how much of the £651,000 was non-compliant and Mr Moorman said he would find out the amount and circulate it to members after the meeting. Mr Povey said that in general terms the amount that was non-compliant amounted to around 10% of the total spend of more than £6 million.

With regard to section 3 - Waivers by Directorate, in relation to the Public Health figure this was still high. This used to be within the NHS but has now been transferred to the local authority. Contracts are being looked into and re-procured but it will take some time to work through. David Moorman advised that the number of KPIs that had never been scored was increasing. The Chair asked why this should be. Mr Moorman said that with regard to corporate KPIs there appears to be a problem in reporting from the directorates. Mr Povey said that the procurement dashboard had been introduced which enabled stakeholders to see where KPIs were not scored but although some progress had been made for example in the Housing directorate there was a need for further improvement. The Deputy Chief Executive said that he would follow this up by writing to directors on this matter.

The report was noted.

The meeting concluded at 1.10 pm.

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Councillor John Ferrett  
Chair