

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

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 8 June 2018 at 10.30 am in 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 Will Purvis (in the chair)

Councillor Simon Boshier  
Councillor Ken Ellcome  
Councillor John Ferrett  
Councillor Ian Lyon  
Councillor Hugh Mason

### **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 Legal and Performance  
Kelly Nash, Corporate Performance Manager  
Greg Povey, Assistant Director of Contracts, Procurement and Commercial

### **External Auditors**

Helen Thompson, Executive Director, EY.  
David White, Manager, Assurance - Government and Public Sector, EY.

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

The Chair, Councillor Will Purvis, welcomed everyone to the meeting and advised that it is being livestreamed and would be available on the website. The Chair then read out the housekeeping rules relating to evacuation procedures in the event of an emergency. Introductions were then made round the table.

There were no apologies for absence.

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

There were no declarations of members' interests.

### **32. Minutes from the Meeting held on 9 March 2018 (AI 3)**

**RESOLVED that the minutes from the meeting held on 9 March 2018 be confirmed and signed by the Chair as a correct record.**

Members asked for updates on some matters referred to in the minutes.

- (minute 21) - Michael Lloyd advised that he had secured 0.8% interest fixed for one year on money lodged with Lloyds Bank (to guarantee MMD's Banking limits)

ACTIONS:

- (minute 21) It was confirmed that the Chair of Governance & Audit & Standards Committee would be advised immediately of variances from the Treasury Management Policy and this Committee would also receive notice of any breach by way of an update to its next meeting
- (minute 22) The City Solicitor agreed that an update on progress concerning the Municipal Energy Supply Company would be included on future agendas to include how it is performing in relation to international and national energy markets so that the Committee can be kept informed about whether the company is or is not on track.

DEPUTATIONS were made at this point in the meeting by Mr Jerry Brown on the following items on the agenda

Item 6 - Treasury Management Outturn report  
Item 7 - Annual Audit Plan report  
Item 8 - Performance Management Update Q4

These have been referred to at the beginning of each item concerned and can be viewed in full using the following link

<https://livestream.com/accounts/14063785/GAS-08Jun2018>

### **33. External Audit Progress Report (AI 4)**

(TAKE IN REPORT)

David White, Manager, Assurance, Government and Public Sector, EY, introduced this item advising that a summary is provided on page 22 of matters brought to a previous meeting of this committee when they were considered in depth. The summary covers the key dates for the 2017/18 year-end audit, 2018/19 fee letter and an update on housing benefit subsidy claim certification.

In response to questions it was confirmed that

- No particular issues had become apparent in relation to the housing benefit subsidy claim certification - there were some small errors in previous years but nothing to cause concern from current year testing undertaken to date (work is ongoing).
- A detailed report on timescales for the Statement of Accounts sign off had been brought to the last meeting and the external auditors said they were as confident as they could be that the accounts would be completed by the deadline.
- Missing the deadline remained a reputational matter and there were no actual penalties.

In response to a query Mr White outlined the method of sampling in respect of the housing benefit subsidy claim certification.

**RESOLVED that the Audit progress report was noted.**

**34. External Audit Fee Letter (AI 5)**

(TAKE IN FEE LETTER)

Helen Thompson, Executive Director, EY (External Auditors) introduced this item advising that for the 2018/19 financial year, PSAA has set the scale fee for each audited body that has opted into its national auditor appointment scheme. PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent compared against the fees applicable for 2017/18.

In response to a query about whether this meant the external auditors would do less work, the Committee was advised that the necessary work would be done - it is a case of how the work is done not what work is done.

**RESOLVED that the Committee noted the External Audit Fee Letter.**

**35. Treasury Management Outturn Report 2017/18 (AI 6)**

(TAKE IN REPORT)

A deputation was made by Mr Brown concerning the Local Enterprise Partnership (LEP) underspend.

<https://livestream.com/accounts/14063785/GAS-08Jun2018>

Michael Lloyd introduced the report and explained that it is before this committee for scrutiny before going on to Cabinet and then Council for approval and decision.

He confirmed that reference on page 40 to the years 2918, 2919, 2920 and 2921 should have read 2018, 2019, 2020 and 2021. This would be corrected before the report went on to Cabinet and Council.

Following discussion it was agreed that the report would benefit from more explanatory notes such as in relation to the current report

- to explain the amount of capital underspend (timing issue around procurement of investment properties)
- to explain the reasons why PCC has surplus cash and why measures are being taken to reduce it
- to include more detail about where money is invested
- To explain that investment is based on security of return above other considerations

In response to queries members were advised

- That MMD loans were not included in the Treasury Management Policy as they are accounted for as part of the Capital Programme. The Treasury Management Strategy is different from that of MMD and the objectives of each were different.
- That the over borrowing extent is falling and that it was hoped that this would be close to zero by the end of the financial year, subject to the capital programme being spent.

The Chair re-iterated that future reports should include more notes to explain and clarify matters contained within it.

**RESOLVED that the actual prudential and treasury management indicators based on the unaudited accounts, as shown in Appendix D, be noted.**

**36. Annual Audit Plan Report 2017/18 & Audit Plan 2018/19 (AI 7)  
(TAKE IN REPORT)**

Mr Jerry Brown gave a deputation on this item that can be viewed using the following link <https://livestream.com/accounts/14063785/GAS-08Jun2018>

The Chief Internal Auditor, Elizabeth Goodwin introduced the report explaining that this updates the committee on the completion of the internal audit plan for 2017/18, highlights areas of concern and areas where assurance can be given on the internal control framework. In addition the audit plan for 2018/19 is presented. The Chief Internal Auditor explained that in 2017/18 a total of eight no assurance audits were issued with one critical risk exception raised. Information on four of the no assurance audits has been reported to the committee in previous reports. Details of the additional four "no assurance" audits are contained within this report.

During discussion the following matters were clarified:

- A position update on the IT procurement inventory and disposal referred to in section 6 of the report was given on 7 June and Internal Audit has not yet verified this position. IT has moved quickly to redress the issues raised but the actions will need to be independently verified and will be included in a follow-up report. Greg Povey, Assistant Director of Contracts, Procurement and Commercial added further

points of clarification in respect of paragraph 6.1.2 of the report. To summarise he said that a huge number of actions were underway to address the issues raised.

- When asked about the potential location of the remaining £8,000 worth of stock the Chief Internal Auditor said that the system in place was poor and that no assurance could be provided. Mr Povey stated that £5,500 of this amount related to iron key memory sticks that were found in the warehouse when the corrective plan relayed the shelving.
- The Chief Internal Auditor agreed to find out whether the £20,000 worth of equipment was a cumulative figure over the last 12 months or a single purchase.
- Mr Povey said that the contract that had expired had not been picked up as it was within another contract that was varied. He agreed that this should have been noticed. It was confirmed that no contract was in place for two years before this was picked up.
- The City Solicitor said that owing to the circumstances, he would detail how the breach of data protection had happened and would report back to this committee. The Chief Internal Auditor said that the level of encryption is very high so considered the risk of a data breach to be very low. ICO advice is that where items are encrypted then they are sufficiently secure. The City Solicitor said that the greater concern was the lack of a proper contract being in place and said he would look at all the issues raised at this meeting and would report back to members of the committee by way of an explanatory note before the next meeting.

With regard to queries raised about MMD, the Chief Internal Auditor explained

- that there had been a cultural change within MMD following the appointment of a new Director and Port Manager.
- that more audits would be carried out and the results would be reported back to this committee.
- that with regard to concerns raised about the wider point of culture and governance not being included in the general audit procedures, the Chief Internal Auditor said that the port board members themselves were looking at this. Internal audit would give their help where reviews have been undertaken and where issues had been uncovered. This will ensure greater transparency in terms of greater input from internal audit that would be reported back to the committee.
- that changes in who sits on the Board were underway to include more councillor representation on the Board.
- When asked to confirm whether civil action was in the pipeline the Chief Internal Auditor stated that she was not aware of any.
- The Chief Internal Auditor said that the external audit role was to look at the finances of the company and the role of internal audit is different. Internal audit will liaise with external auditors to check no overlap of work going forward

With regard to 4.3 of the report, the Chief Internal Auditor said that sufficient resources were available to conduct the work specified. She said that Internal Audit was more efficient than previously following the agreement to invest in analytical software. Internal Audit had also reviewed how it carried out audits and this had resulted in a more efficient process. The City Solicitor said he would be happy to meet individually with councillors to explain the process in detail.

- Confirmation was given that with regard to the GDPR (General Data Protection Regulations) issue regarding legacy systems this was already underway and an update will be provided to this committee at a future meeting.
- Members asked for some changes to be made to the report in future to include the date when the audit took place and to clearly show which items were historic and which are new as they seem to be mixed up in the Appendix A of the report detailing outstanding issues.
- With regard to page 57 of the documents pack concerning the two high risk exceptions against Community & Communications, the Chief Internal Auditor explained that this was in relation to the Regulation of Investigatory Powers Act (RIPA) and although there had been no breach, Internal Audit said that there was a need to tighten up on procedures and that it was likely that these would be inspected again soon.

**RESOLVED that members**

- (1) Noted the completion of the audit plan for 2017/18;**
- (2) Noted the highlighted areas of control weakness from the 2017/18 audit plan;**
- (3) Endorsed the audit plan for 2018/19.**

**37. Performance Management Update - Quarter 4, 2017 - 18 (AI 8)**  
(TAKE IN REPORT)

Mr Jerry Brown made a deputation on this item that can be viewed in full using the following link <https://livestream.com/accounts/14063785/GAS-08Jun2018>

Kelly Nash, Corporate Performance Manager, introduced the report and invited members to comment on the way the information was presented with a view to tailoring it to meet members' expectations. The following comments were made:

- Members agreed that the level of detail was about right and that where there were multiple concerns with a particular directorate the committee might consider inviting the director concerned to a meeting to focus on those issues.

- General concern was expressed about the red, amber, green (RAG) ratings as they seemed to be too subjective and often appeared to be contradictory. Members suggested that an executive-level meeting should be convened before the report was finalised to determine RAG ratings.
- With regard to the energy company, members felt that this was a significant risk and that more information generally should be brought to this committee. The members were aware that there could be difficulties in assigning a RAG rating to an item in that it could be given a green rating in terms of performance but a different RAG rating in terms of risk.
- Members commented that the narrative suggested that some directorates seemed to take the report more seriously than others.

The Corporate Performance Manager said that the full report could perhaps be taken to the briefing meeting and members could then decide which items to focus on at the main meeting.

The chair asked that in future all members of the committee be invited to the briefing meetings.

**RESOLVED that the Committee**

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

**38. Consideration of the Political Balance Rules in relation to the constitution of Sub-committees considering complaints against Members (AI 9)**

(TAKE IN REPORT)

The City Solicitor explained that as there has been a change this municipal year in the political make-up of the Council, Members are asked to reaffirm the decision made in February 2018 to disapply the political balance rules in respect of its Sub-Committees which consider complaints against Members and to agree that the same arrangement shall apply to the Initial Filtering Panel.

He explained that the decision is one which only this Committee can make and that it must be made without any of the Members present voting against it.

Members voted unanimously in favour of the recommendation.

**RESOLVED that the political balance rules are disappplied in respect of Governance and Audit and Standards Sub-Committees which are**

**considering complaints against Members and also the same arrangement should apply in respect of Initial Filtering Panel membership.**

**39. Exclusion of Press and Public (AI 10)**

The City Solicitor was asked whether the exempt designation applying to the appendix to item 11 on Data Breaches could be lifted so that the document could be made public and this was agreed. Arrangements would be made to publish the item on the website.

The meeting remained in open session.

**40. Data Security Breach Report (AI 11)**

(TAKE IN REPORT)

The City Solicitor introduced the report which informed the Committee of any Data Security Breaches and actions agreed/taken since the last meeting. During discussion it was confirmed that

- The rules around reporting to the Information Commissioner's Office had changed and it was likely that more breaches would need to be reported in future following GDPR
- Staff have been given clear advice on how to deal with data breaches- employees must report any breach to their manager in the first instance.
- The City Solicitor agreed to check the redress available where an employee's data has been breached.

**RESOLVED that Members of the Committee noted the breaches (by reference to Appendix A) that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).**

The meeting concluded at 1.20 pm.

---

Councillor Will Purvis  
Chair