

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 27 July 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.)

Present

Councillor Will Purvis (in the chair)

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

Officers

Chris Ward, Director of Finance & S151 Officer
Julian Pike, Deputy Head of Finance & S151 Officer
Michael Lloyd, Directorate Finance Manager (Technical & Financial Planning)
Louise Wilders, Director of Community & Communication
Charlotte Smith, Assistant Director of Community & Communication
Stewart Agland, Local Democracy Manager
Jon Bell, Director of HR Legal and Performance
Elizabeth Goodwin, Chief Internal Auditor
Paul Somerset, Deputy Chief Internal Auditor
Richard Lock, Senior Procurement Professional

External Auditors

Helen Thompson, Associate Partner, Ernst & Young.
David White, Manager, Assurance - Government and Public Sector, EY.

41. 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.

The Chair advised that there would be some changes to the order of the printed agenda (but for clarity, in these minutes, the items are dealt with in the order on the agenda)

There were no apologies for absence.

42. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

DEPUTATIONS were made at this point in the meeting.

Mr Jerry Brown and Ms Hilary Reed each made a deputation on agenda Item 5 - Annual Governance Statement.

Mr Jerry Brown made a deputation on agenda item 6 - Statement of Accounts.

Ms Hilary Reed and Ms Mary Shek each made a deputation on Agenda Item 10 - Revision to Corporate Complaints Procedure.

A written representation from Rosy Bremer was also received on this item and the Chair read this out as it was very short.

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

<https://livestream.com/accounts/14063785/GAS-27Jul2018/videos/178197493>

43. Minutes of the meeting held on 8 June 2018 (AI 3)

RESOLVED that the Minutes of the meeting held on 8 June 2018 be confirmed and signed by the Chair as a correct record subject to the last bullet point on page 8 being amended to read

"The City Solicitor agreed to check the redress available to a resident where the resident's data has been breached.as a result of action by an employee."

UPDATES on matters referred to in the minutes.

With regard to Minute 32 referring to previous minute 22, members wanted to know why there was no report on the Municipal Energy Supply Company on the agenda for this meeting as had been requested.

- Members were advised that this had been raised in connection with the quarterly performance management update report and it was intended to be dealt with as part of that report which would be on the agenda for the next scheduled meeting.
- Given the rapid progress being made on this matter, members were dissatisfied not to have received a report or an update at this meeting.
- Mr Chris Ward said that he could confirm that the Energy Company had not yet engaged in any wholesale energy activity in national or

international markets so there would be nothing to report back as yet in this regard. He offered to answer any queries Members had.

- Members said they wanted a report to generally scrutinise matters contained within it including PCC's investment and the governance arrangements and considered that a report coming to 14 September meeting was too late.
- In response to a query about when an update could be expected, Mr Ward said that the Leader was about to send out an email inviting members to a briefing where relevant stakeholders would be in attendance to answer members' queries. He said the intention was also to hold informal group meetings on the matter. He confirmed that Price Waterhouse Cooper (PwC) had not yet finalised their part of the report. He also confirmed that a full legal review had been carried out by CMS law firm and that PwC were preparing their third due diligence report which was likely to be completed during the following week.
- Members commented that none of these reports had been seen by this committee or its Chair and that as yet, nobody had consulted with the Conservative Group Secretary (who is a member of this committee) concerning a group meeting. Concern was expressed about the lack of scrutiny and over the timing of these briefings as August is traditionally the time of year when members are likely to be on holiday.

It was proposed by Councillor Boshier, seconded by Councillor Hugh Mason that a special meeting of this Committee be convened early in September to consider a report on the Municipal Energy Supply Company and this was agreed.

Mr Ward advised that although the decision lies with Cabinet, the Leader wanted to share the report more widely with members in advance of the Cabinet decision meeting scheduled for Friday 10 August to give all members the opportunity to make their views known.

The Chair said that if a decision had already been taken then that may make a special meeting superfluous.

[NB - Following the Cabinet Meeting decision on 10 August, the Chair of this Committee advised it was no longer necessary to convene a Special meeting].

In relation to minute 35, page 4, bullet point 5, further clarity was requested about MMD and the Treasury Management Strategy and how MMD loans are accounted for. Mr Ward agreed to provide a written response.

With regard to Minute 36, page 5 concerning more audits to be carried out on MMD, the Chief Internal Auditor confirmed that these had not yet started but would be reported to this committee as part of their regular reports.

Members asked

- That the audits be carried out and reported back at the earliest opportunity
- That in view of the number of queries arising about MMD as part of various different reports, that a specific report on MMD covering all

financial and audit issues be brought to the next scheduled meeting of this committee.

Reference was made to bullet point 4 on page 5 where

- "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."

Members noted that this appeared not to have been done.

The following matters were raised during discussion

- Members wanted agreed actions to include a timescale and also the date of the meeting at which an update would be given.
- Members were concerned that matters were not being reported back to the committee as agreed by the City Solicitor
- Mr Bell, Director of HR Legal and Performance, agreed to consider a way forward to ensure that actions agreed at meetings were captured and dealt with (perhaps in an action tracker document) and that additional information provided to members outside meetings be placed in the public domain as appropriate
- With regard to page 8 of the minutes, the query about available redress was in relation to a resident whose data protection had been breached by an employee and it was agreed that the minutes from today's meeting would make that clear.

44. Annual Audit Report 2017/18 (AI 4)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report and said she would welcome members' feedback on the new format. She explained that the report updates the Committee on the completion of the Internal Audit Plan for 2017/18 and provides the Authority with the required Annual Audit Opinion which feeds into the Annual Governance Statement, as required under the Local Government Act 1999.

The Chief Internal Auditor drew members' attention to section 3 of Appendix A that gives a breakdown of assurances. There was one error in the report in that Adult Social Care - should be green rather than amber. She advised that the overall opinion is limited assurance which although the same as last year, was stabilising as opposed to worsening as had previously been the case. She said that only 41% of agreed actions have been fully implemented by directorates within reasonable timescales.

Internal Audit have to comply with external audit standards and although compliant, 10.9 of Appendix A identifies three areas where potential improvements could be made.

An update was provided on queries raised at the last meeting

- With regard to IT issues, Paul Somerset, Deputy Chief Internal Auditor, explained that a new contract concerning disposal had been in place

since 6 June. As yet nothing had been disposed of but as soon as this happened internal audit would carry out checks.

- A new IT policy was about to go live
- The security markings issue had not moved on much but was progressing
- An inventory process is now in place but has not yet been tested
- With regard to the £20,000 unaccounted for assets, most of the assets had since been accounted for. However an amount of £3,900 was being written off. The money related mainly to small items such as keyboards and mice.

The following matters were raised during discussion

- With regard to page 23, the reason MMD and schools had been bracketed together was simply because these were both "external". The entries were further broken down at the request of the committee to show that
for MMD - 3 audits were conducted - 2 resulted in no assurance being given and one resulted in limited assurance being given.
for schools - 13 audits were conducted - 3 were given assurance, 1 reasonable assurance, 7 limited assurance and 2 no assurance.
- Feedback from members concerning the new report format was favourable
- With regard to 10.12 concerning capacity within internal audit, members asked for comparison information as this would provide context. It was agreed that at the next meeting a full breakdown of where time is being spent will be provided.
- With regard to the need to write-off the amount of £3,900, assurance was given that the new security tagging system would be able to track where equipment is located in future. Internal audit would produce a follow up report that will test the system.
- With regard to work carried out by PCC internal audit for outside organisations, re-assurance was provided that this was within the capacity of the audit team to deliver. However, additional organisations had approached PCC and resources would be looked at again to check that the requisite skill sets and numbers of staff are sufficient for Portsmouth.
- Members were concerned that the overall audit opinion is still at Limited Assurance
- Members were very concerned that only 41% of agreed actions had been implemented by directorates. A suggestion was made that the Chair could meet regularly with Internal Audit and in cases where agreed actions were not being implemented the directors concerned could be asked to attend a meeting of this committee to provide an explanation.

- With regard to s3.1 - audit assurance levels- there are two cases where no opinion had been given. Members were advised that one relates to the Troubled Families Grant - where no opinion can be given as it is a case of either signing it off or not. The second relates to the data analytic liability orders section. Ways of matching data are still being worked on as this may be a data protection issue. Members were advised that these were not of concern to internal audit. They are noted because it is work that audit has said it will undertake.

RESOLVED that Members noted

- (1) the completion of the Audit Plan for 2017/18**
- (2) the Annual Audit Report and Opinion for 2017/18**
- (3) the audits completed since the last meeting in relation to the 2017/18 Audit Plan**

45. Annual Governance Statement (AI 5)

(TAKE IN REPORT)

Mr Jerry Brown and Ms Hilary Reed each made a deputation on this item that can be viewed in full at <https://livestream.com/accounts/14063785/GAS-27Jul2018/videos/178197493>

Jon Bell, Director of HR, Legal and Performance, introduced the Annual Governance Statement. This sets out how Portsmouth City Council has complied with the Local Code of Governance, and how the authority meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011.

He said that effectively there are 2 parts to the statement - the Annual Governance Statement itself and the Local Code of Governance attached as appendix 1.

There followed a discussion during which the following matters were raised:-

- With regard to page 68 - preparation for the General Data Protection Regulations (GDPR) - it was confirmed that it is difficult to say that everything has been completed as this is an ongoing matter. A plan was put in place some time ago and PCC is progressing well but there are some outstanding issues for example in connection with archiving. Reassurance was given that although not immune from challenge, PCC is well-positioned relatively in terms of other organisations and the expectations of the Information Commissioner's Office.
- In relation to cyber security, the guidance that has been given is revised very regularly and messages are sent to staff with updated advice. It is a matter that is included in the annual communications plan.
- A query was raised about how scrutiny panels review and challenge policy by Cabinet and whether there is any supporting evidence that that is being done. The Local Democracy Manager advised that it was a matter for the scrutiny panels themselves as to how they carried out their role (within their terms of reference). All Councillors receive a

copy of the Forward Plan and can ask for clarity on anything coming to a committee for decision. Decisions once taken can also be "called in" by the Scrutiny Management Panel (SMP) as part of the scrutiny role. The Local Democracy Manager advised that discussions had taken place with the chair of SMP about the various ways in which scrutiny can be carried out.

A member of the committee said that the level of resources given to scrutiny overall was a councillor decision and this had reduced in recent years leading to less scrutiny than PCC used to have. Members agreed to ask the Local Democracy Manager to raise with the Chair of Scrutiny Management Panel the concerns of the Committee concerning a perceived weakness in how Cabinet decisions/policies are scrutinised. Members asked that the Local Democracy Manager arranges for a brief statement or report to be brought back to the Committee on how the Chair intends to undertake this role.

RESOLVED that the Committee

- (1) Agreed the Annual Governance Statement 2017/18 (Appendix 2)**
- (2) Approved the refreshed Local Code of Governance set out in Appendix 1.**

46. Annual Statement of Accounts 2017/18 (AI 6)

(TAKE IN STATEMENT OF ACCOUNTS)

Mr Jerry Brown made a deputation on this item that can be viewed in full at the following link <https://livestream.com/accounts/14063785/GAS-27Jul2018/videos/178197493>

Michael Lloyd, Directorate Finance Manager, introduced this item advising that work on the accounts was still ongoing and circulated a list of the more significant revisions. The Committee is asked to approve the Statement of Accounts and to delegate authority to the Chair if it became necessary to re-sign the accounts in the event that the external auditors required it.

In response to queries the following matters were clarified

- With reference to the statement on page 81 "short term debtors being reduced by £2,069,000 on the balance sheet. This has no effect on either the Council's revenue accounts or its net worth" - Mr Ward said that in simple terms this is a re-classification - £2m had been included in long term provisions but it relates to a short term matter. Effectively the liability in one part of the balance sheet has been replaced with a reduced asset in another part of the balance sheet so they net off to zero. He confirmed that no write-off has taken place and said he would find out the year in which the provision was made and when it came off and would provide this information after the meeting.

- With regard to pages 160 and 198 there are references to the Hampshire Community Bank (HCB). Members asked for a report back to the September meeting of this Committee given that this is a major investment by PCC. Members asked that the report covers how much money is being loaned out to those in Portsmouth, what progress had been made and whether it was considered to be successful or not.

At this point in the meeting, Mr Chris Ward made a declaration that he is a director of HCB.

Mr Ward provided a brief update to the Committee advising that no bonds have been purchased at this stage. The legalities of the arrangement with HCB are currently being worked through. Any bond purchase will be secured against underlying property assets HCB was not yet trading in retail banking as it had not received the necessary approvals. However regulatory approval is not necessary to trade in commercial loans. He advised that commercial loans are being made by the Bank in Hampshire but he did not have information about loans being made specifically in Portsmouth but undertook to find out.

A discussion took place around page 113 - "net cost of services". The Committee was advised that the accounts have to be presented using a particular format as required by statute.

With regard to "Non portfolio other" page 26 of the statement of accounts) states

"Other non-portfolio expenditure includes annual shortfall contributions to the local government pension scheme (£6.8m), investment in subsidiary companies (£4.1m), provision for the repayment of debt (£4.6m) and capital expenditure financed from revenue balances (£5.2m)"

One Member said it would be useful if the £20m expenditure could be broken down to itemise anything of £500k or more.

Mr Ward said that the management of the overall budget rests with the administration. The Treasury Management report details spending and comes to this Committee quarterly to be scrutinised before going to Cabinet. If the Committee considers this to be an area of weak governance, this can be looked at. The Statement of Accounts is prepared to a prescribed format and officers attend this meeting to answer any questions members have in order to explain complex issues.

Members asked if in future the Statement of Accounts could be sent to Committee Members at an earlier stage.

It was confirmed that the Statement of Accounts is published on the Council's website.

The Chair formally proposed the adoption of the recommendations in the report and these were agreed.

RESOLVED

(1) That the Statement of Accounts be approved

(2) That authority be delegated to the Chair of the Governance and Audit and Standards Committee to sign an amended 2017/18

Statement of Accounts after 27 July 2018 should this be required following comments by the auditor

Members were advised of the requirement for the Letter of Representation included at the end of the external auditor's Annual Audit Report to be signed by the Chair of this Committee.

It was proposed by Hugh Mason seconded by Cllr Boshier that the Chair of the Committee signs the Letter of Representation on behalf of the Committee. This was agreed.

47. External Audit Results Report (AI 7)

(TAKE IN REPORT)

(NB This item was taken before the item on the Annual Statement of Accounts 2017/18 but has been kept in its original place on the agenda for ease of reference)

Helen Thompson, Associate Partner, Ernst & Young, introduced the report and particularly thanked PCC staff for their support during the year. She advised that she and David White would focus on the Executive Summary starting on page 239 of the reports pack.

- Ms Thompson referred to the scope update and drew members' attention to the changes in materiality and the fact that an internal specialist had reviewed the Authority's updated calculation of its minimum revenue provision.
- David White advised that under the heading "Status of the Audit", all work mentioned in the bullet points under the sub-heading "Our work is ongoing in the following areas" had been completed. Also under the sub-heading "The following are also outstanding or are to be completed as part of the conclusion of the audit" he advised that the review of the final version of the financial statements had also been completed. All the other matters are still outstanding but that is within expectations.
- He explained that the audit is required to undertake separate work around the Whole of Government Accounts - with a later deadline of 31 August - and that is not yet completed. However this does not affect the statement of accounts sign-off.

Ms Thompson then outlined the matters contained in the summary under the various headings.

- She advised that the Annual Governance Statement had been reviewed but there were no issues to bring to the attention of the Committee.
- She drew Members' attention to the independence of the external auditors and also to the analysis of fees on page 274 including the proposed fee variation.

With regard to the Audit focus,

- David White stated that the only significant risk identified is management override of controls (page 244) which they are required to note. However there are no indications of management override.

- With regard to valuation of land and buildings (page 246), the auditors have undertaken the programme of work shown and no issues were identified..
- Under "Classification of investment properties", PCC has now reclassified a number of assets which are now correctly classified.
- PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by EY's internal expert in 2016/17. No material issues with regard to PFI accounting were identified and no further expert involvement was required.
- With regard to pension asset liability valuation - estimates are provided by Hampshire County Council's independent actuary . One immaterial judgmental difference was identified as reported in section 4 which results from a timing issue and this is mentioned in the Letter of Representation.

Further detail about this is provided underneath the table on page 257 and Ms Thompson elaborated further stating that page 214 shows that PCC's share of the pension fund assets is £701m, so the assets had been understated by £3.3 m which is not material by comparison to the total share of pension fund assets. This is a judgmental error but is above the threshold so needs to appear in the Letter of Representation.

To conclude, the External Auditors said they intend to issue an unqualified opinion.

Members noted the report.

48. Risk Policy and Procedures (AI 8)

(TAKE IN REPORT)

Jon Bell introduced the report that presents the council's risk and assurance management policy to the Governance and Audit and Standards Committee for approval.

There were no questions from Members.

RESOLVED that the Committee

- (1) Approved the attached Risk and Assurance Management Policy**
- (2) Agreed to review the risk management policy in June 2020, including risks current at the time and lessons learnt over the previous year**

49. Treasury Management Monitoring Report Qtr 1 2018/19 (AI 9)

(TAKE IN REPORT)

Michael Lloyd introduced the report which informs members and the wider community of the Council's Treasury Management position at 30 June 2018 and of the risks attached to that position.

Members had no questions on the report.

RESOLVED that the following be noted:

- (1) That there have been no breaches of the Treasury Management Policy 2018/19 in the period up to 30 June 2018**
- (2) That the actual Treasury Management indicators for June 2018 in Appendix A be noted.**

50. Revised Corporate Complaints Policy (AI 10)

(TAKE IN REPORT)

(This item was heard immediately after the Minutes but has been kept in its original place on the agenda for ease of reference)

Deputations were given by Ms Hilary Reed and Ms Mary Shek on this item at the beginning of the meeting and a written representation from Ms Rosy Bremer that had been previously circulated to members was read out by the Chair. These can be heard in full by accessing the following link

<https://livestream.com/accounts/14063785/GAS-27Jul2018/videos/178197493>

Louse Wilders, Karen Fitzgerald and Charlotte Smith were in attendance for this item. Ms Smith advised that the revised policy is intended to simplify, clarify and improve PCC's response to corporate complaints. It was also intended to change and improve accountability. Two separate policy documents have been combined into one and some slight amendments have been made to the complaints process.

Ms Smith explained the research and consultation that had been undertaken to produce the revised policy and advised that alongside the policy, the leaflets and web pages are being improved. Ms Smith also explained that additional work is underway including with protected characteristics groups to make sure the revised policy is straightforward and accessible. Internal communication and training on the revised policy should ensure better reporting and learning and is expected to lead to improved accountability. Regular reports will be brought to this committee on corporate complaints and actions services take to improve outcomes.

During discussion the following matters were raised:-

- With regard to timescales, members were concerned that there is no hard time limit for resolution of a complaint. The Director of Community and Communication advised that current practice is to advise a complainant how long the complaint will take to resolve. But she agreed to make this clearer. An amendment could be made to say that PCC will aim to complete within one month. The Chair said that the wording should go beyond "aim to" and that longer than 2 months would not be reasonable.
- The Director of Community and Communication said that very few complaints fail to be dealt with within the timescales. Most are dealt with from beginning to end in 12 weeks and this could be made clear in the policy.
- Members were referred to 8.5 of the policy which states that with regard to vexatious complaints, the decision about what falls within that

category rests with the Director of Community and Communication although the Director would not necessarily take that decision alone.

- A member suggested that perhaps a link could be included in the policy to councillors' pages on the web.
- In response to a comment that there was a lack of contextual information - such as the overall number of complaints and how many went to stage 1,2 and 3 - Members were advised that the annual report that would include that information would be brought to the next meeting of the Committee. It was confirmed that where trends were apparent, work was carried out with the directorates concerned. The Director of Community and Communication said she was confident that there was good overall visibility of the nature of the complaints across the Council.

The Chair advised that he had recently received the annual letter from the Ombudsman about complaints and would email it to members of the Committee.

RESOLVED that the revised policy at Appendix 1 is approved.

51. Report of urgent decision taken in accordance with Standing Order 58 of the Council's Procedure Rules (AI 11)

The Chair advised that this item is included to fulfil the requirement to report instances where Standing Order 58 has been used to give effect to an urgent decision rather than taking it through the Governance & Audit & Standards Committee.

Members noted that following consultation with the previous Chair and Vice-chair of this committee, the Chief Executive was satisfied that it was necessary to invoke Standing Order 58 to appoint a Data Protection Officer in accordance with the General Data Protection Regulations (GDPR). The reason for urgency was in order to meet the deadline set in the GDPR of 25 May 2018.

Members noted the use of Standing Order 58.

52. Exclusion of Press and Public (AI 12)

It was proposed by the Chair that the meeting moved into exempt session to allow for full discussion including the exempt appendices and this was agreed.

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 following item on the grounds that the appendices contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972"

53. Procurement Management Information (AI 13)

(Take in non-exempt part of this "information only" report)

Richard Lock, Senior Procurement Professional, introduced the report which 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.

Members had previously approved a recommendation of a target of greater than 95% conformance with Contract Procedure Rules. Where this target is not met by an individual directorate, a comment on the risk of the non-compliant spend in the monitoring month is provided by the Procurement Manager. Mr Lock said that although there are some areas of non-compliance these were not matters for concern.

He explained the various sections of the report to members

Section 1: Covered compliance with contract procedure rules

Section 2: Waivers awarded this quarter

Section 3: Spend with Waiver

Section 4: Spend by Contract Size

Section 5: Suppliers paid over £100,000 in Q1 by Directorate

Section 6: Supplier Performance

Section 7: Supplier Performance Monitoring

During discussion, the following matters were raised:-

- In Section 2 - Waivers awarded this Quarter - Members asked that reports should make clear the list of providers by name, provide details of who is providing what and also include details of the providers with whom the council spends most money.
- A query was raised in connection with page 349 - Appendix 3 entry **C00003947** that appears twice - once under Regeneration and once under Capital Schemes. Mr Lock said he would find out why this was and report back.
- A query was raised as to whether the reason why all the non-compliant transactions appeared to have taken place in April was to do with the financial year end. Mr Lock said he would find out and would report back.
- It was confirmed that there was general management oversight of contracts and an audit process was also in place.
- With regard to a query about a retention figure referred to in 1.5 of exempt appendix 4, it was confirmed that this was expected to be adequate to ensure completion of the work.

The Committee noted the report.

The meeting concluded at 2.25pm.

Councillor Will Purvis
Chair