

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 24 July 2020 at 2.00 pm at the Virtual Meeting - Remote

(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 Leo Madden (in the chair)
Councillor Simon Boshier (Vice-Chair)
Councillor Chris Attwell
Councillor John Ferrett
Councillor Judith Smyth

Officers

Chris Ward, Director of Finance and Resources
Peter Baulf, City Solicitor and Monitoring Officer
Elizabeth Goodwin, Chief Internal Auditor
Richard Lock, Assistant Procurement Manager

External Auditors

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

21. Apologies for Absence (AI 1)

The Chair welcomed everyone to the meeting and explained that it was being held virtually because of restrictions imposed following the outbreak of Covid 19.

Apologies for absence were received on behalf of Councillor Neill Young.

22. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

23. Minutes of the meeting held on 3 March 2020 (AI 3)

The Chair explained that as he was the only member at the last meeting who was also present at today's meeting, the minutes could not be approved and would have to be deferred to the next meeting.

The Chair advised that the queries raised on the Hampshire Community Bank had been answered via email.

He also advised that the change to Standing Order 32d) had been approved by Council and was now part of the Constitution.

RESOLVED that approval of the draft minutes be deferred to the next scheduled meeting of the Committee.

24. Financial Impact of Covid 19 Pandemic (AI 4)

(TAKE IN INFORMATION ONLY REPORT)

Chris Ward, Director of Finance and s121 officer presented the information only report that set out the financial impact of Covid 19. He said that money was still being received from various sources and the situation was uncertain for a number of reasons. The report only considered the effect of the initial outbreak and if there was a second spike, this would have a further impact. The essence of the strategy agreed at Cabinet was that the £10m shortfall (after all government money had been received and leaving £3m in the reserve) would be met by putting a hold on some of the capital projects until such time as the situation becomes clearer.

There has been some additional funding from central government since the report was written. The first 5% of any loss has to be borne by the council. Of the remainder, government will provide 75% of any loss and Council the remaining 25%. Any deficit from business rates and council tax will not be funded by central government but they will give the council 3 years to cover any deficit.

In response to questions

- it was confirmed that PCC has operated in accordance within government guidance
- losses concerning the commercial port are sizeable and because so few local authorities have a commercial port, there is no government guidance about this. Chris Ward said PCC is seeking such guidance and is hoping for positive news
- PCC are lobbying government for a response about the Housing Revenue Account (HRA).
- There have been some savings as a result of the pandemic such as on home to school transport and waste disposal, but the savings do not amount to very much as compared with the losses. Other savings have been made in relation to the Highways pfi contract where Colas furloughed a number of staff.
- There is currently no financial modelling in the event of a second spike of Covid 19 and this is because government would be expected to intervene again.

The report was noted.

25. Draft Annual Governance Statement (AI 5)

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor introduced the report on behalf of Kelly Nash.

She advised that paragraph 3 gives the background to the report and that the authority has a duty to produce and publish an Annual Governance Statement. It sets out the systems and processes in place to ensure that Council business is conducted lawfully and in accordance with proper standards. The report highlights that the Covid 19 pandemic response had started and wider recovery will have significant implications for the governance of the organisation. As this covers the period up until the statement of accounts is submitted - expected in November, there may be a need to update the committee should there be changes in the coming months.

RESOLVED that the Committee agreed the Annual Governance Statement 2019/20 (Appendix 1)

26. External audit 2019 to 20 Audit Planning report update (AI 6)

(TAKE IN INFORMATION REPORT)

Helen Thompson and David White, external auditors introduced the report which provided an opportunity for the Council to see how the risk assessment has been updated as a result of Covid 19.

David White focused on changes in the risk assessment and referred to page 56 of the report. For the reasons stated, there could be a significant impact on investment properties and the external auditors have therefore raised a significant risk in relation to investment property valuations.

Page 58 of the report identifies other areas of the audit that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters that will be included in the audit report.

Page 59 of the report refers to external audit being obliged to report on such matters within the section 'Conclusions relating to Going Concern'. To do this, external audit must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements. The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.

Page 60 of the report states that the introduction of the new accounting standard – IFRS 16 has been deferred meaning that the Council no longer needs to disclose the financial impact of the new accounting standard in the 19/20 accounts.

In response to questions

- With regard to procurement matters - Helen Thompson said that for the 2019/20 audit this would not have a significant impact. The procurement report would be looked at for the 2020/21 audit statements when it was likely to have greater impact.
- With regard to the effect of Covid 19 on the rental income from the property portfolio and the purchase of Lakeside, this will be taken into

account as at 31 March for the current audit and Ernst & Young would be using real estate specialists to help with the audit. It will impact on both the 2019/20 and 2020/21 audits but was likely to be more prominent in the 2020/21 audit.

The information only update report was noted.

27. Summary of Procurement Compliance Figures/Covid 19 impact - information report. (AI 7)

(TAKE IN REPORT)

Information only

Richard Lock introduced the report that was to provide an overview of procurement activity. The report was an interim report and a more detailed report including exempt appendices would be brought to the next meeting.

Whilst more manual updating has been required in respect of the data taken for May 2020, the raw system compliance percentage is 64%. The subsequent adjusted compliance figure has remained high at 97% which is actually higher than the 96% recorded for September 2019. There were some areas where the compliance percentage was not as high as he would have liked, but nothing was over the tender threshold of £100k and nothing was anywhere near the statutory threshold of £190k. Basically there was nothing giving him cause for concern.

In order to respond efficiently and effectively the former Procurement Manager agreed in conjunction with Legal and Audit on 1 April 2020 that the waiver and extension could be streamlined to effective summary rationale without full completion of standard forms where the need for the waiver could be directly linked to the impact of the Covid19 pandemic. This was on condition that key approvals from the Director / AD, Procurement, Legal and Finance were still obtained and recorded.

The need for emergency direct awards is reducing and is expected to reduce further due to effective build-up of PPE stock, easing of lockdown restriction in respect of shielded individuals and reduction in one off IT equipment spend. There will however still be an increased need for direct award waivers on this basis over the next quarter which may still require streamlined governance.

During discussion

- It was agreed that Richard Lock would send members of the committee the information that would normally appear in the exempt appendices.
- With regard to the large number of kpis that were never scored or have lapsed, Richard Lock said that work would be undertaken to identify those contracts that had lapsed and these would be updated.
- Members said that good management would be required to check on the performance of contractors so that not too much leeway was given to those citing Covid 19 as the reason for any performance issues. Richard Lock said that this was one of the actions identified in the recovery phase. He confirmed that letters had gone out to all

managers of strategic contracts to provide updates and these had shown a good level of co-operation and partnership.

The report was noted.

28. Audit Plan 2020/21 - Updates/changes as a result of COVID-19. (AI 8)

(TAKE IN REPORT)

The Chief Internal Auditor, Elizabeth Goodwin, introduced the report advising that the proposed Audit Plan 2020/21 was presented to this committee on 3 March 2020. Since that meeting the COVID-19 pandemic has caused significant changes in the priorities, working practices, governance arrangements and availability of staff at the Council. As such, changes have been made to the Audit Plan and these changes are presented in Appendix A.

The Committee was advised that several entries in Appendix A had been scored through which meant they were not being pursued this year. The Audit Plan had to be kept fluid and was being reassessed on a monthly basis so that anything significant could be reinstated if necessary. The key message is that as there is much uncertainty and many additional pockets of work are being requested - especially around grants - that is a new area of focus.

Risk assessments have to be carried out regularly as much audit work involves going through papers and this may be too risky in the current climate. Audit work will only be carried out where it is safe to do so.

With regard to annual governance and assurance, some rules in various areas have been waived and internal audit have been involved with checking that what has been agreed has been carried out in accordance with the terms and conditions of those agreements.

The Chair thanked the Chief Internal Auditor for her report.

RESOLVED that the Committee noted the changes to the Audit Plan 2020/21.

29. Audit Performance Status Report to 30th June 2020 & Annual Audit Opinion 2019/20. (AI 9)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report which is the Audit Performance Status Report for the 2019-20 planned audit activities along with the overall Annual Audit Report and Opinion 2019/20.

Appendix A includes the detail of progress made against the annual plan and documents individual audit findings. Appendix B is the Annual Audit Report and Opinion 2019/20 report.

The annual opinion this time is limited assurance. There is a recurring concern that directorates are not implementing agreed actions when they say they will. To try to address this ongoing issue, any exception that is open is going to be taken to the directors of each service and a follow-up on the

follow-up will be carried out. The audit will not be closed until the actions have been completed.

Audit areas that have been completed are noted in the report from page 101 onwards. The initials NAT where they appear in Appendix A refer to matters that were not relevant for testing. There are no new areas of significant concern. One item - Victory Energy (VESL) remains open as this is still in draft.

During discussion

- The Chief Internal Auditor confirmed that although the overall opinion was still limited assurance, there had been some improvement as indicated in the tables on page 122 of the report. However, there was still a long way to go before limited assurance could be upgraded to reasonable assurance. The number of reports given a limited assurance rating would have to reduce by about a third of the current number and there would have to be nothing in the "no assurance" category. But there are also other things to be considered.
- With regard to the 3 high risk exceptions mentioned on page 103, these were predominantly concerning satellite premises where paperwork to evidence required actions relating to mitigating against fire risk was not available. Sometimes the required actions are taken initially but evidence for subsequent audits cannot be produced to show that required actions have been kept up to date. If no evidence can be produced, audit will conclude that the actions have not been taken.
- The Committee agreed that there is a recurring theme where initial progress is made but that too often this is followed by a lapse into old ways and that this is not satisfactory.
- The Committee was disappointed that Officers set their own time scales for compliance and then failed to meet their own deadlines.

Following discussion, it was noted that the Chief Internal Auditor would provide a position statement to all directors with implementation dates for actions agreed by services.

As part of the audit progress report, the Chief Internal Auditor would provide details of instances where implementation dates were not met and would show how many missed deadlines there had been by directorate. The director/ directors of the services concerned would be expected to attend the G&A&S meeting to explain the reasons for any missed deadlines.

RESOLVED that Members

- (1) Note the Audit Performance for 2019/20 to 30th June 2020.**
- (2) Note the highlighted areas of concern in relation to audits**
- (3) Note the Annual Audit Report and Opinion for 2019/20.**

30. Criminal Finance Act 2017 - Tax Evasion Policy - information report (AI 10)

(TAKE IN REPORT - information only)

The Chief Internal Auditor introduced the report which informs the Committee of the requirements placed upon the council in relation to the legislation as set out in the Criminal Finance Act 2017 with regard to Tax Evasion. The

Government has stated that councils should be criminally liable where they fail to prevent those who act for or on their behalf from criminally facilitating tax evasion.

Portsmouth City Council (PCC) therefore needs robust arrangements in place to carry out its own checks and balances - similar to those already undertaken in relation to bribery and counter fraud. The Policy sits within the Finance Directorate.

The Council's Audit Team will conduct regular compliance checks paying specific attention to areas of high risk and will report back to the Governance & Audit & Standards Committee as part of its annual reporting on counter fraud activities.

During discussion

- It was confirmed that there had been no incidents of tax evasion, but there have been incidents of fraud.
- Risk areas are covered in the Policy and include compliance checks on matters such as checking that certain clauses are included in contracts, checking there are good due diligence arrangements, checking that adequate finance processes in place and checking suppliers are bona fide.

The Chair thanked the Chief Internal Auditor for her report which was noted.

The Chair thanked everyone for their attendance.

It was agreed that where possible, future meetings should be scheduled on a Friday at 2pm.

The meeting concluded at 4pm.

Councillor Leo Madden
Chair