

# Public Document Pack

## GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 16 July 2021 at 2.00 pm at the Council Chamber - 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 Leo Madden (in the chair)  
Councillor Simon Boshier (Vice-Chair)  
Councillor Stuart Brown  
Councillor Charlotte Gerada  
Councillor Lee Hunt  
Councillor Daniel Wemyss

### Officers

Elizabeth Goodwin, Chief Internal Auditor  
Paul Somerset, Deputy Chief Internal Auditor  
Julian Pike, Deputy Director of Finance & S151 Officer  
Michael Lloyd, Finance Manager (Technical & Financial Planning)  
Paddy May, Corporate Strategy Manager  
Peter Baulf, City Solicitor  
Richard Lock, Procurement Manager

### External Auditor

Helen Thompson, Associate Partner, Ernst & Young  
Fahad Ijaz, Assistant Manager, Ernst & Young

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

There were no apologies for absence.

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

There were no declarations of members' interests.

#### 24. Minutes of the meeting held on 5 March 2021 (AI 3)

**RESOLVED** that the minutes of the meeting held on 5 March 2021 be approved and signed by the Chair as a correct record.

#### Matters Arising

- Page 12, third bullet point - the committee requested a report documenting the effect of Covid 19 on PCC's investments be

considered at the 21 January 2022 Governance & Audit & Standards Committee.

**25. External Auditors - 2020/21 Audit Plan (AI 4)**

(TAKE IN REPORT)

Helen Thompson and Fahad Ijaz from Ernst & Young, the Council's external auditors, introduced their report.

The report comprised the full Audit Plan for 2020/21, the committee having considered the outline plan at the 5 March 2021 meeting. There had been no significant change in risk areas from 2019/20, however one new risk had been added in relation to accounting for Covid-19 related Government grants.

Value for money was a specific requirement of public sector audits and there had been a change to the code for 2020, whereby the National Audit Office guidance now requires external auditors to carry out a more detailed initial risk assessment to gather sufficient evidence to enable them to document their evaluation of the Council's arrangements. This work has now concluded and the auditors have concluded no further work was required. The results of this risk assessment will be included the auditor's annual report which will be presented to the Committee later this calendar year.

The committee's attention was drawn to the significant risk areas contained within the Audit Plan which included:

- Valuation of Investment Property and Land and Buildings (valued using EUV & FV method);
- Valuation of Lakeside North Harbour asset; and
- Misstatements due to fraud or error.

In response to a question regarding the latter, it was confirmed that 'Misstatements due to fraud or error' was always an assumed risk within such Audit Plans, along with 'Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure'. These had not been included because of any identified concerns with control measures at Portsmouth City Council.

**Following the discussion, it was RESOLVED that the committee NOTED the information only update report.**

**26. Internal Audit Performance Status Report to 2nd July 2021 & Annual Audit Opinion 2020/21 (AI 5)**

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report which comprised the Audit Performance Status Report for the 2020-21 planned audit activities along with the overall Annual Audit Report and Opinion 2020/21.

Appendix A included the detail of progress made against the annual plan and documented individual audit findings. Appendix B comprised the Annual Audit Report and Opinion 2020/21 report.

The committee was advised that there were no new areas of significant concern to highlight for this reporting period and that there was one outstanding item in relation to Ravelin.

During discussion, the Chief Internal Auditor confirmed that:

- the Council was required to estimate the grant required for the Covid Bus Subsidy and had returned unspent funds to the Department for Transport in accordance with the grant conditions;
- the sample reporting in respect of direct payments to clients (Adult Services) was worrying and confirmed that work was underway with the Director of Adult Services to deliver an improvement action plan. Internal Audit would maintain a watching brief on the matter and follow up at the end of Q2.

In response to a question it was confirmed that the majority of the actions would be delivered by the end of August 2021, with a longer term review due to conclude by June 2022. An update would be provided to the Governance, Audit & Standards Committee at the 24 September 2021 meeting.

- The item in respect of changes to the production and signing of paperwork by lorry drivers at Portico in response to the Covid-19 pandemic should be revisited post pandemic. It was however a low risk, as mitigating controls were in place;
- A follow up would be undertaken in respect of the two high risk areas in relation to the Solent Local Enterprise Partnership (SLEP) Isle of Wight and New Forest Business Resilience Funds audit;
- It was believed that all parties had been reassured about the two high risk exceptions in respect of the Grant Awards including due diligent checks - SLEP audit and that some good results should be realised;
- Of the 163 exceptions raised in the 2020/21 audits, all proposed actions were in place and at varying degrees of implementation. These would be followed up;
- In relation to the necessarily quick turnaround of Business Grants, fraud risks had been mitigated through the grant criteria and application process.

In response to a question about the differing performance of services it was confirmed that no directorates had given significant concerns and that by their nature some services, such as finance, were more regulated.

**Following the discussion it was RESOLVED that the Committee NOTED:**

- (1) the Audit Performance for 2019/20 to 2<sup>nd</sup> July 2021.**
- (2) the highlighted areas of concern in relation to audits completed from the 2020/21 Audit Plan, including follow up work performed**

**(3) the Annual Audit Report and Opinion for 2020/21.**

**27. Treasury Management Outturn Report for 2020/21 (AI 6)**

(TAKE IN REPORT)

Michael Lloyd, Finance Manager (Technical and Financial Planning), introduced the report.

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Prudential Code of Practice required local authorities to calculate prudential indicators before the start of and after each financial year. The CIPFA Code of Practice on Treasury Management also required the Section 151 Officer to prepare an annual report on the outturn of the previous year. This information was shown in Appendix A of the report

The report informed members and the wider community of the Council's treasury management activities in 2020/21 and of the Council's treasury management position as at 31<sup>st</sup> March 2021. After scrutiny by the Governance, Audit & Standards Committee it would progress to Cabinet and Full Council.

The committee had no questions in respect of this report.

**RESOLVED that the committee NOTED the actual prudential and treasury management indicators based on the unaudited accounts, as shown in Appendix B of the report.**

**28. Draft Annual Governance Statement (AI 7)**

(TAKE IN REPORT)

Paddy May, Corporate Strategy Manager, introduced the report which sought approval from the Committee for the council's Annual Governance Statement (AGS) for 2020/21 (Appendix 1) and the refreshed Local Code of Governance (Appendix 2).

The Chairman commended the documents and in particular the quality of the Local Code of Governance.

The committee had no questions in respect of this item.

**RESOLVED that the Committee:**

- (i) AGREED the Annual Governance Statement 2020/21 (Appendix 1);**  
**and**
- (ii) APPROVED the refreshed Local Code of Governance (Appendix 2)**

**29. Consideration of the political balance rules in relation to the constitution of Sub-Committees considering complaints against Members (AI 8)**

(TAKE IN REPORT)

Peter Baulf, City Solicitor, introduced the report and advised that the matter be considered by the Committee regularly to ensure a wider range of membership.

The Committee was asked to consider whether it wishes to disapply the political balance rules in respect of its Sub-Committees and the Initial Filtering Panels which considered complaints against Members.

The committee had no questions in respect of this item.

**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.**

**30. Exclusion of Press and Public (AI 9)**

The Chair advised that proceedings would be kept open until such time as there was any discussion relating to the exempt appendices included in the report on the following item on the agenda and would move into exempt session at that point.

**31. Procurement Management Information (AI 10)**

(TAKE IN REPORT)

Richard Lock (RL), Procurement Manager, introduced the report which provided evidence to allow the committee to evaluate the extent that Portsmouth City Council was producing contracts for goods, works and services in a legally compliant value for money basis.

The report provided comparison between performance from the last time period reported to the committee on 5 March 2021, which covered November 2020 - January 2021, to the latest reporting period February - June 2021.

Unfortunately due to the upgrading of the Council's finance system to the Oracle cloud based FUSION system putting pressure on day to day operational support the spend compliance report could not be effectively produced in time for the GAS Committee document pack issue deadline. However, subsequent to this the system issues which prevented the report being run has been resolved and a report had been successfully produced in advance of the actual GAS Committee meeting.

In respect of the spend compliance report which covers financial transactions linked to contract register entries in line with Local Government Transparency

Code (2015) requirements, RL was pleased to inform the Committee that the raw compliance report figure for May 21 had risen to 92% from the 71% reported for December 2020, which is the highest it has ever been. Further analysis to remove administrative errors and oversights increased the adjusted compliance figure to 99% which is again the highest this has ever been since these reports were first taken to the Committee.

RL informed the committee that this sharp positive increase was due to the increased contract to financial transaction matching controls introduced with the upgrade to Oracle FUSION combined with a focused sustained effort by Procurement to work with services to improve the completeness and accuracy of the Council's contracts register. RL said that a copy of the detailed excel report can be provided to the committee upon request.

In respect of the Appendix 2 report which covers waivers granted to depart full compliance with the Council's Contract Procedure Rules and on some occasions the wider Public Contracts Regulations (2015) RL provided the committee with an overview of the report which showed that pressures of the pandemic and Brexit were still significantly contributing to an increased level of contracts that have been direct awarded via waiver in order to meet operational requirements. It also appeared that following the implementation of Oracle FUSION there was now higher visibility of below £100k contracts which could be directly awarded by relevant Director without seeking further approval from Procurement and Legal which was also increasing the level of waivers reported.

In respect of the Appendix 3 report which covered contract performance against corporate KPIs. RL provided an overview of the two contracts which were showing as red but were not of any ongoing significant concern due to improvements of performance in the case of the waste contract and recovery of costs in respect of the IT hardware contract. No questions were raised by Committee in respect of the red contracts. However concern was raised in respect of the value and number of contracts against which no level of performance had been recorded.

RL acknowledged the concerns and would target making improvements in this area for when the next procurement report was considered by the committee.

RL stated that for some contracts, works construction contracts as example, the KPI was not recorded until completion of the works which could result in high 'KPI yet to be scored' figures. RL also stated that in addition to general KPI reporting additional contract delivery assurance was also provided by the Strategic Contract Support Board which he sat on and that there were no significant contracts with unaddressed issues.

The committee raised questions regarding the supplier performance on the Education Management System contract which is at amber and appeared to be of high value. RL answered that the value of £642,080 stated was a cumulative rather than per annum value and covers a period running from 1<sup>st</sup> April 2013 to the current expiry date of 31<sup>st</sup> March 2022. RL also confirmed

that he was aware that a capital bid had been approved to replace the current system and that work was being undertaken to review options, including for re-tender of the contract which may entail a switch of supplier.

The committee enquired whether a switch of supplier and associated system could be put in place now. RL answered that due to significant staff costs associated with switching systems along with first year capital purchase costs that entering into a short term arrangement would be unlikely to represent best value for the Council.

The committee asked that options for bringing forward the long-term review and development / replacement of the system should be investigated by the service.

**RESOLVED that the committee NOTED the update report.**

The meeting concluded at 3.51 pm.

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Councillor Leo Madden  
Chair

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