

# Public Document Pack

## GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 21 January 2022 at 2.30 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 Daniel Wemyss (Vice-Chair)  
Councillor Stuart Brown  
Councillor Charlotte Gerada  
Councillor Lee Hunt  
Councillor John Smith

### Officers

Peter Baulf, City Solicitor  
Elizabeth Goodwin, Chief Internal Auditor  
Michael Lloyd, Finance Manager (Technical & Financial Planning)  
Jessica Mott, Senior Asset Manager  
Kelly Nash, Corporate Performance Manager  
Paul Somerset, Deputy Chief Internal Auditor  
Tom Southall, Assistant Director Property & Investment

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

There were no apologies for absence.

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

There were no declarations of members' interests.

#### 3. Minutes of Meeting held on 5 November 2021 (AI 3)

**RESOLVED** that the minutes of the meeting held on 5 November 2021 be approved and signed by the Chair as a correct record with the following amendment:

**Page 2, Para 6 - the addition of the word 'one' in the penultimate sentence to read as follows: ".....included on Planning Committee agendas which only had one objector.**

#### **4. Portsmouth City Council Audit Results Report: Year ended 31 March 2021 (updated January 2022) (AI 4)**

(TAKE IN REPORT)

Helen Thompson and David White from Ernst & Young introduced the report which presented Portsmouth City Council's updated audit results for the year ended 31 March 2021 to the committee for information.

The draft had been presented to the committee at its meeting held on 24 September 2021 and the work was now complete apart from small queries in respect of going concern, along with some general procedures required by the ISAs, remaining internal review processes and some audit conclusion procedures. The audit had taken longer to complete than usual due to an additional level of scrutiny following the 2019 audit and a pressure on capacity.

The committee was updated on the previous outstanding issues of significant risk which had moved on since September 2021.

##### Valuation of Lakeside North Harbour Asset

The internal valuation specialists' review of the valuation of Lakeside North Harbour had concluded that each of the ten assets comprising the Lakeside campus were within the expected valuation range. Therefore, there were no identified issues with the valuation of Lakeside in the financial statements.

##### Valuation of Investment Property and Land and Buildings (valued using EUV & FV method)

Large samples of investment properties, land and buildings were tested with two audit differences identified.

For one investment property asset the valuer used a yield which was outside the benchmark range based on national comparators, resulting in a lower than expected valuation. The remaining investment property population for similar assets was reviewed to gauge the overall effect of this issue and calculated a projected overall understatement of the investment property balance of £964k.

For one land and buildings asset, the valuer had miscalculated the internal area for the building, resulting in an overstatement of property, plant and equipment of £1.47m. It was noted however that a further individual asset difference resulted in an overall net below the trivial level at a £0.24m understatement, which did not impact the overall audit opinion.

Two differences in methodology which did not form material issues for the accounts were identified:

Purchaser costs had not been separately allowed for in valuations performed by the internal valuations team; however, they formed part of the overall yield

consideration. External Audit recommended that these be considered separately going forward.

Management fees had been allowed for separately in valuations performed by the internal valuations team. The expectation was that these would usually be incorporated within the yield and it was recommended that this be considered going forward.

#### Valuation of Land & Buildings valued at Depreciated Replacement Cost (DRC), and Housing Revenue Account (HRA) properties

A substantial sample of land and buildings assets valued at depreciated replacement cost, along with 20 HRA Beacon properties. There were no matters to report regarding Housing Revenue Account valuations.

For one land and buildings asset, the valuer had used the incorrect asset life in the valuation calculation, resulting in an understatement of PPE of £1.71m.

It was noted that the net impact on PPE of this difference and the one reported on previously represented a £0.24m understatement, which was trivial and therefore did not impact the overall audit opinion.

For the population of land and buildings assets valued at depreciated replacement cost the internal valuer had not allowed for professional fees as expected within the valuation calculations performed in 2019/20 and 2020/21. This had resulted in a total calculated £3.97m overstatement of PPE.

Valuations had included a contingency amount, which specialists felt was against best practice and had resulted in an underspend of just under £4m. The net impact of these two factors was therefore trivial and did not impact the overall audit opinion.

It was advised that professional fees should be included, and contingency fees excluded, from depreciated replacement cost valuations going forward.

#### Pension Liability Valuation

In the report presented in September 2021 work was expected from the internal pension specialists to provide assurance of the model used by the actuary to calculate the valuation. Work had now been completed with no matters to report.

In closing, it was confirmed that the Public Sector Audit Appointments (PSAA) had determined the 19/20 the fee with a variation £48,112. It was expected that the 20/21 audit would be completed in the coming weeks and the committee would be advised of the 20/21 fee at a future meeting.

In response to a question, it was confirmed that whilst there had been some mathematical human error in respect of the property misstatements, this had only been identified in two of a very large number of samples tested and did not give cause for concern going forward.

In reply to further questions, it was hoped that an update on fees for 20/21 could be given at the March 2022 meeting, although this wouldn't be the figure agreed by PSAA. In respect of the capacity of Ernst & Young in the longer term it was explained that recruitment and retention was an issue being addressed and some further thinking would be undertaken nationally around simplifying processes for both councils and external auditors.

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

**5. Corporate Performance Report - Q2 2021/22 (AI 5)**

(TAKE IN REPORT)

Kelly Nash, Corporate Performance Manager introduced the report which reported any significant performance issues arising from Q2 2021-22 performance monitoring to the committee.

In response to a question regarding a lack of morale across of some staff it was explained that there were differences across departments and the results of the recent employee survey were being analysed. The results of this would be presented to the Employment Committee in due course.

In respect of collaborative working, this was seen as a real benefit which arose during the pandemic and was something that the council was keen to continue with going forward.

The Corporate Performance Manager agreed to provide a response in respect of a question seeking an update on building project management support into adult social care core staffing.

**RESOLVED that the committee NOTED the report in the revised format.**

**6. Internal Audit Performance Status Report to 10 January 2022 (AI 6)**

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor introduced the report which updated the Committee on the Internal Audit Performance for 2021/22 to 10 January 2022 against the Annual Audit Plan, highlighted areas of concern and areas where assurance could be given on the internal control framework.

She advised the committee that work was on target to enable and influence the annual audit opinion.

In reply to a question in respect of cost of living increases and the impact on council tax debt collection it was anticipated that there might be a small upward trend in the longer term due to this whilst the situation settled.

In response to a question about the limited assurance given for home school transport it was confirmed that the issues were the same as previously

identified, however improvements had been made from the previous rating of no assurance. Improvement actions had been agreed to be implemented by March 2022 and it was agreed that a verbal update could be given at the March meeting of the committee.

**RESOLVED that the committee NOTED:**

- (i) The Audit Performance and results for 2021/22 to 10 January 2022; and**
- (ii) The highlighted areas of concern in relation to audits completed from the 2021/22 Audit Plan, including follow up work performed.**

**7. Whistleblowing Annual Report and Policy (AI 7)**

(TAKE IN REPORT)

Elizabeth Goodwin, Chief Internal Auditor introduced the report which updated the committee on the nature and handling of any whistleblowing concerns which have been raised for the period January 2021 to December 2021.

She advised the committee that in the past year there had been six recorded incidents which was an increase on the previous year. There were no underlying patterns and it was encouraging that people felt able to come forward with their concerns.

In response to questions the committee was advised that no further details were presented to the committee, however if there were recurring process issues these may be reported. It was confirmed that there had been no multiple reports about the same matter.

**RESOLVED that the committee NOTED:**

- (i) the report and the attached Appendix A; and**
- (ii) the Whistleblowing Policy at Appendix B, where there were no proposed changes.**

**8. Treasury Management Monitoring Report for the Third Quarter of 2021/22 (AI 8)**

(TAKE IN REPORT)

Michael Lloyd, Finance Manager introduced the report which informed the committee of the Council's Treasury Management position as at 31st December 2021 and of the risks attached to that position.

In response to a question, it was confirmed that the current rate of inflation was a concern for some of the council's smaller investments, as in time it may cause them to not realise the expected return. It was however suspected that there might be a rise in interest rates and it was clarified that the council's main investments continued to perform respectably considering the current financial climate.

**RESOLVED that the committee NOTED:**

**(i) that the Council's Treasury Management activities have remained within the Treasury Management Policy 2021/22 in the period up to 31<sup>st</sup> December 2021; and**

**(ii) the actual Treasury Management indicators as at 31<sup>st</sup> December 2021 set out in Appendix A of the report.**

**9. Report to Governance & Audit & Standards Committee on complaints received into alleged breaches of the Code of Conduct by Members of the Council for the calendar year 2021 (AI 9)**

(TAKE IN REPORT)

Peter Baulf, City Solicitor, introduced the report which updated the committee in relation to complaints which have been progressed within the calendar year 2021 and which allege that Councillors may have breached the Code of Conduct.

He confirmed that four complaints had been processed and all had been dealt with at the Initial Filtering Panel level. Some had involved social media posts and he advised that councillors be careful when using social media.

**RESOLVED that the committee NOTED the report and placed on record it's thanks to the Independent Persons.**

**10. Exclusion of Press & Public (AI 10)**

The Chair advised that proceedings would be kept open until such time that the committee wished to discuss the exempt appendices to the following reports:

- (i) Property Investment Fund - Covid-19 Impact; and
- (ii) Procurement Management Information

At the conclusion of the consideration of the non-exempt reports, the resolution to move into exempt session to consider the exempt appendices was passed and the committee entered exempt session. The committee had no questions in respect of the exempt appendices to the two reports.

**11. Property Investment Fund - Covid-19 Impact (AI 11)**

(TAKE IN REPORT)

Jessica Mott, Senior Asset Manager, introduced the report which provided the committee with a summary of the response and impact of the Covid- 19 pandemic on Portsmouth City Council's commercial property investments.

In response to a question, it was confirmed that as a landlord PCC had the discretion to offer rent free periods.

During the discussion the investments made by the council were commended as they had contributed to the economic stability of the council during difficult financial times.

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

**12. Procurement Management Information (AI 12)**

TAKE IN REPORT)

Peter Baulf, City Solicitor, introduced the report which provided evidence to allow the committee to evaluate the extent that Portsmouth City Council is producing contracts for goods, works and services in a legally compliant value for money basis. He advised that the Procurement Manager had raised no concerns and neither had he as City Solicitor.

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

The meeting concluded at 3.38 pm.

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Councillor Leo Madden  
Chair

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