

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Wednesday, 10 July 2024 at 5.00 pm at the Council Chamber - The Guildhall, Portsmouth

(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 Ian Holder (in the chair)
Councillor Stuart Brown (Vice-Chair)
Councillor Richard Adair
Councillor Spencer Gardner
Councillor Russell Simpson
Councillor Judith Smyth

Officers

Steven Belshaw, Group Accountant
Helen Dickeson, Deputy City Solicitor
Elizabeth Goodwin, Chief Internal Auditor
Helen Klemm, Finance Manager (Technical & Financial Planning)
Kelly Nash, Corporate performance Manager
Paul Somerset, Deputy Chief Internal Auditor
Richard Webb, Deputy Director of Finance

20. Apologies for Absence (AI 1)

There were no apologies for absence.

21. Declarations of Members' Interests (AI 2)

There were no declarations of interest.

22. Minutes of the meeting held on 28 February 2024 (AI 3)

The minutes of the meeting held on 28 February 2024 were confirmed and signed as a correct record.

23. 2021/22 External Auditor's Annual Report (AI 4)

David White, External Audit Manager (Ernst & Young) and Rumana Rafiq Ullah, Assistant Manager (Ernst & Young), introduced the external auditor's annual report for 2021/22.

In response to a comment around the lateness of the report, Mr White appreciated that the report was historic, but reminded the committee of the statutory requirement for external audit to present the report. The issues for lateness had been discussed at length previously by the committee and were

issues which had affected external audit of councils nationally. The 2023/24 Audit Plan at minute 25 detailed how external audits would be brought back in line with expected timeframes going forwards.

The external auditor had given an unqualified opinion of the financial statements, with no issues to report in respect of the council's value for money arrangements.

The committee had no questions in respect of this item.

RESOLVED that the committee NOTED the report.

24. 2022/23 External Audit Interim Value for Money Report (AI 5)

David White, External Audit Manager (Ernst & Young) and Rumana Rafiq Ullah, Assistant Manager (Ernst & Young), introduced the external auditor's value for money interim report for the year ended 31 March 2023

The purpose of the interim report was to provide the committee with an interim commentary on the value for money arrangements in accordance with the auditor's responsibilities under the code of audit practice.

Mr White confirmed that there were no significant weaknesses to report on.

The committee commended the report and was reassured by the findings.

RESOLVED that the committee NOTED the report.

25. 2023/24 External Audit Plan (AI 6)

David White, External Audit Manager (Ernst & Young), introduced the external auditor's audit planning report for the year ended 31 March 2024.

The purpose of the report was to advise the committee of the proposed audit approach and scope for the 2023/24 audit. In order to comply with International Standards on Auditing (UK) and clear the current backlog as referenced in minute 23 there would be three phases:

1. A reset involving clearing the backlog of historic audits opinions up to and including the 2022/23 financial year by 30 September 2024;
2. Recovery from Phase 1 in a way that did not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles; and
3. Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

In practice this would mean that the 2022/23 audit would likely be limited to value for money reporting and the audit opinion for 2022/23 disclaimed if not completed by the backstop date in order to allow the 2023/24 audit to commence.

He highlighted a few of the significant risks identified for the council, which were:

- The risk of misstatement due to fraud or error, and the risk of fraud in revenue recognition. This was required to be reported on under auditing guidance, although there were no exceptional concerns in relation to these; and
- Property, plant and equipment valuations, which was an area that the regulator took a keen interest in. Specific risks had been identified around the valuation of the Lakeside North Harbour asset.

Another area of audit focus was in respect of IFRS16, which was a new accounting model for leases which had been introduced on 1 April 2024. Assurance would be sought that the council could meet the required standard for the following year.

In respect of the audit fees, the scale fee related to the full completion of the audit, however for the 2022/23 audit it was likely that only the value for money work would be completed. The Public Sector Audit Appointments (PSAA) would use its fee variation process to determine the final fee payable by the council for the 2022/23 audit.

In response to a question, the council's group accountant confirmed that the council had not opted to voluntarily adopt the new IFRS accounting model early and it would apply only from the date of introduction, 1 April 2024.

The committee thanked Mr White for the report and was genuinely reassured that the backstop dates would bring the audit timelines back into line.

RESOLVED that the committee NOTED the report.

26. Internal Audit Performance Status Report to 1 July 2024 & Annual Audit Opinion 2023/24 (AI 7)

Elizabeth Goodwin, Chief Internal Auditor, introduced the report which updated on the internal audit performance for 2023/24 to 1 July 2024 against the Annual Audit Plan.

The progress report detailed outstanding items of work completed since the last reporting period, which in this instance was February 2024. The scheduled work had been completed although two items of work, Port Capital Repairs/Projects and PFI Contract (Claims) had been removed towards the end of the year because the client had not had the capacity to facilitate the audit. Both would however be considered for 2024/25.

Page 80 onwards of the report detailed all of the audits completed to 1 July 2024.

In response questions the committee was advised that:

- If an audit was deferred from one annual plan it would be considered for a future audit plan. PFI Contract (Claims) would be considered by March 2025. Scheduling of audits was flexible and took into consideration the demands of the service and the capacity within internal audit;
- In respect of improving the number of limited assurances, it was explained that audits were carried out under a framework which assessed the effectiveness of the agreed action plan and how any issues could be addressed; and
- For those audits which remained as limited assurance for consecutive years there was an audit action tracker which showed open issues. This enabled services to close actions when they believed that they had been completed. Quarterly reports were provided to services in order that they could keep a focus on implementing audit actions. As a new tool, its effectiveness would be reviewed at the end of the year and reported back to the committee. In addition, if the committee had concerns about any particular areas it could invite the relevant director to attend to provide an explanation.

The Chief Internal Auditor then detailed the annual audit opinion which showed that most areas were well controlled with robust arrangements in place. Whilst pockets of weaker or failing control arrangements existed, collectively there were sufficient levels of assurance or reasonable assurance to warrant an overall opinion of reasonable assurance to be given.

In response to questions from the committee it was explained that:

- A development programme was in place to address the current skills gap within internal audit; and
- In respect of the consultancy review for shareholder governance item, the council was required to consider whether there was a role for internal audit attendance at relevant meetings. The Chief Internal Auditor's attendance at the Shareholder Committee in an advisory capacity met this requirement.

RESOLVED that the Governance, Audit & Standards Committee NOTED:

- (i) **the Audit Performance and results for 2023/24 to 1 July 2024;**
- (ii) **any highlighted areas of concern in relation to audits completed from the 2023/24 Audit Plan, including follow up work performed; and**
- (iii) **the Annual Audit Report and Opinion for 2023/24.**

27. Treasury Management Outturn Report 2023/24 (AI 8)

Richard Webb, Deputy Director of Finance & Resources introduced the report which updated on the council's treasury management activities in 2023/24 and the council's treasury management position as of 31 March 2024.

He advised that the council had operated within the agreed Treasury Management Policy and had closed the financial year at £1.3m below budget. This had been due to higher than anticipated returns on investments following interest rate rises.

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

28. Corporate Performance Report - Q4 2023/24 (AI 9)

Kelly Nash, Corporate Performance Manager, introduced the report which sought to provide assurance around the effectiveness of performance monitoring at the council and advise of any significant performance issues arising from Q4 2023-24.

The committee highlighted the number of items which did not have 'RAG' performance targets, which made it difficult to assess whether the required performance was being met. In reply, the Corporate Performance Manager explained that some items had been newly listed but acknowledged that some might have been omitted from the document in error. This would be checked and where appropriate provided to the committee.

Whilst the report and the detailed commentary was felt to be excellent, some members of the committee believed that a wider focus on outcomes for people, rather than processes, would be beneficial. A request was therefore made that future reports place a greater emphasis on outcomes.

RESOLVED that the committee:

- (i) NOTED the report in the revised format; and**
- (ii) requested that, as a further action, future reports place greater emphasis on measuring outcomes.**

29. Draft Annual Governance Statement (AI 10)

Kelly Nash, Corporate Performance Manager, introduced the report which sought approval from the committee for the council's draft Annual Governance Statement (AGS) for 2023/24 (Appendix 1 to the report).

She explained that the report was currently a draft and that it would be considered by the committee in final form at a later date.

RESOLVED that the Committee AGREED the Annual Governance Statement 2023/24.

30. Re-appointment of Independent Persons (AI 11)

Helen Dickeson, Deputy City Solicitor, introduced the report which, subject to approval by Full Council, sought to re-appoint three of the council's current Independent Persons for a further three years.

The committee had no questions in respect of this item, but took the opportunity to thank the Independent Persons for their work.

RECOMMENDED to Council that Council appoint Chris Rider, Diana Turner and Carole Damper as Independent Persons for three years from 17 July 2024 to 31 July 2027.

31. Consideration of the political balance rules in relation to the constitution of Sub-Committees considering complaints against Members (AI 12)

Helen Dickeson, Deputy City Solicitor, introduced the report.

The committee was asked to consider whether it wished 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 disapplied 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.

The meeting concluded at 5.58 pm.

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Councillor Ian Holder
Chair