

SUPPLEMENTARY AGENDA

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

FRIDAY, 4 MARCH 2022 AT 2.00 PM

COUNCIL CHAMBER - THE GUILDHALL

Telephone enquiries to James Harris on 023 9260 6065 Email: james.harris@portsmouthcc.gov.uk

Membership

Councillor Leo Madden (Chair)
Councillor Daniel Wemyss (Vice-Chair)

Councillor Stuart Brown
Councillor Charlotte Gerada

Councillor Lee Hunt Councillor John Smith

Standing Deputies

Councillor Ryan Brent, Councillor Lewis Gosling, Councillor Graham Heaney, Councillor Luke Stubbs and Councillor Rob Wood

(NB These reports should be retained for future reference with the main agenda and minutes of this meeting).

4 External Audit - Auditors Annual Report: Year ended 31 March 2021 (Pages 3 - 42)

Portsmouth City Council's Annual Audit report.

This item is for noting.

5 Data Security Breach Report (Pages 43 - 56)

The purpose of this report is to inform the Committee of any Data Security Breaches which have occurred since the last report (September 2021) and update the committee on any subsequent action which has been taken to address them.

RECOMMENDED that Members of the Governance & Audit & Standards Committee note the report.





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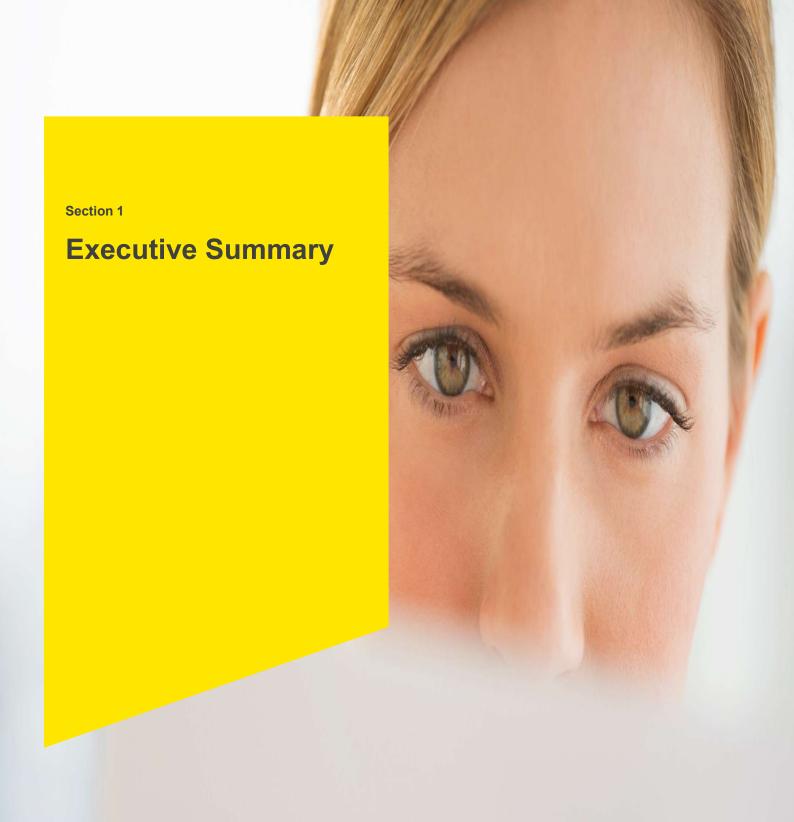
Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA $website \ (\underline{\text{https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/})}). The \ Statement \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ as \ the \ formal \ terms \ of \ responsibilities \ serves \ of \ responsibilities \ of \ responsibiliti$ engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

. This report is made solely to the Governance and Audit and Standards Committee and management of Portsmouth City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance and Audit and Standards Committee and management of Portsmouth City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance and Audit and Standards Committee and management of Portsmouth City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

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Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion	
Opinion on the Portsmouth City Council:		
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Portsmouth City Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 9 February 2022.	
Going concern	We have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.	
Consistency of the Council's Statement of Accounts and other information published with the financial statements	Financial information in the Council's Statement of Accounts and published with the financial statements was consistent with the audited accounts.	

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements.
	We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 14 January 2022 to the Governance and Audit and Standards Committee, with a final version circulated on 9 February 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 has not yet been issued by HM Treasury.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of property, plant and equipment and investment property, and other additional procedures as included in this report. As a result, we are to agree an associated additional fee with the Director of Finance & Resources (s151 officer), and for approval by PSAA Ltd. We include details of the proposed audit fees in Appendix 1.

We would like to take this opportunity to thank the Portsmouth City Council staff for their assistance during the course of our work.

Helen Thompson

Helen Rounn

Associate Partner

For and on behalf of Ernst & Young LLP



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 5 July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- · Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Financial Statement Audit

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements

Key issues

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 9 February we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 21 January 2022 Governance and Audit and Standards Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Misstatements due to fraud or error - management override of controls

An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Conclusion

Our audit work has provided assurance that:

- We did not identify any evidence of material management override.
- is in a unique position to commit fraud because of its ability to manipulate accounting records directly or

 We did not identify any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
 - We did not identify any other transaction which appeared unusual or outside the Council's normal course of business.

Inappropriate capitalisation of expenditure

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

We did not identify any instances of inappropriate capitalisation of revenue expenditure through our testing of PPE additions and revenue expenditure funded from capital under statute (REFCUS).

Significant Risk

Valuation of investment properties and land & buildings valued using Existing Use Value (EUV) and Fair Value.

The fair value of investment property and land & buildings valued using EUV or Fair Value represent significant balances in the Council's accounts and are subject to valuation changes impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. ISA's (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Covid-19 has brought significant market volatility.

Conclusion

We identified two audit differences as a result of our work which management chose not to adjust. These were:

- A projected understatement of the valuation of investment properties of £0.964m
- A miscalculation in one land & buildings valuation resulting in an overstatement of £1.47m. The net impact of this difference and the one on the next page was an overall £0.24m understatement of Property, Plant and Equipment (PPE).

We also made recommendations regarding the treatment of purchaser costs and management fees in the valuations for consideration by management going forward.

No other issues were identified from testing of these valuations, through our consideration of the work of the Council's valuers, or our review of accounting entries.

Other area of audit focus

Valuation of Lakeside North Harbour

During the 2019/20 financial year, Portsmouth City Council purchased the Lakeside North Harbour office complex. This is a highly significant and material property, plant and equipment asset.

Management is required to make judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet in respect of this asset.

Conclusion

Our specialists' review of the valuation of Lakeside North Harbour concluded that each of the assets comprising the Lakeside campus was within the expected valuation range. We therefore did not identify any issues with the valuation of Lakeside in the financial statements.

Significant Risk Conclusion Other area of audit focus Conclusion

Valuation of Land and Buildings

The value of land & buildings at depreciated replacement cost (DRC), and Housing Revenue Account (HRA) properties, also represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

We identified three audit differences as a result of our work which management chose not to adjust. These were:

- A miscalculation in one land & buildings valuation resulting in an understatement of £1.71m. The net impact of this difference and the one on the previous page was an overall £0.24m understatement of PPE.
- A projected £4.07m understatement of the valuation of PPE as a result of professional fees being omitted from DRC valuations in 2019/20 and 2020/21.
- A projected £3.97m overstatement of the valuation of PPE as a result of a contingency allowance being included in DRC valuations, which is not expected based on best practice.

The net impact of the 2nd and 3rd items above was therefore £0.1m.

We made recommendations regarding the treatment of professional fees and contingency in DRC valuations, for consideration by management going forward.

No other issues were identified from testing of these valuations, through our consideration of the work of the Council's valuers, or our review of accounting entries.

Other area of audit focus

audit focus Conclusion

Pension Liability valuation

The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

As a result of our work we did not identify any audit differences.

in the Balance Sheet. Accounting for this scheme We were satisfied that pension liability was fairly stated involves significant estimation and judgement and that the associated disclosures were appropriate.

Restatement of CIES, EFA and related disclosure notes.

Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP. The Council changed its internal reporting structure in 2020/21, which led to the restatement of the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, in line with the new structure.

As a result of our work we did not identify any audit differences.

We were satisfied that the Comprehensive Income and Expenditure Statement, and the Expenditure and Funding Analysis and related disclosure notes, were restated appropriately following the changes to the internal reporting structures.

PFI accounting

The Council has four PFI arrangements, two of which are material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal specialist in 2016/17. We reviewed the accounting entries and disclosures in relation to PFI in detail in 2020/21, with a focus on any significant changes since the specialist's review.

No issues were identified with PFI accounting through the work performed.

We assessed brought forward assurances as remaining appropriate, and noted no significant changes in the PFI models. We were satisfied that the financial statements disclosures were consistent with the PFI models.

Other area of audit focus

Going concern disclosures

The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.

Conclusion

We were satisfied that management's going concern assessment was appropriate. We held discussions with management and agreed amendments to the final disclosure in financial statements where these were judged necessary.

The final disclosure provided adequate information for the statement of accounts, and context for interpretation by the reader in the local government context.

In our judgement there was no material uncertainty to disclose, as there was no likely impact on the level of statutory services provided.

Accounting for Covid-19 related grant funding

The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.

Accounting for Covid-19 related grant As a result of our work we did not identify any audit differences.

Our testing showed that covid grants had been appropriately treated as agent or principal, and consequently removed or included within the CIES respectively.

Group Accounts Assessment

IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Council has interests in other entities, it needs to undertake qualitative and quantitative assessments to inform its decisions as to whether group accounts are required. This is an area of potential complexity and judgement requiring regular review.

We were satisfied that group accounts were not required for 2020/21. We reviewed the Council's updated group accounts assessment, and undertook our own review to assess whether the Council has any arrangements which would require the production of group accounts.

This is an area which will need to be kept under review going forward.

Audit differences

In addition to the differences identified in the previous pages, we identified a small number of misstatements in disclosures which management corrected. No other adjusted or unadjusted audit differences were identified.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £12.2m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Governance and Audit and Standards Committee that we would report to the Committee all audit differences in excess of £609k.



Value for Money (VFM)

We did not identify any risks of significant weakness in the Council's VFM arrangements for 2020/21

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the Governance and Audit and Standards Committee meeting on 5 July 2021. This was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with the Governance and Audit and Standards Committee and evaluation of associated documentation through our regular engagement with Council management and the finance team

We reported that we had not identified any risks of significant weakness in the Council's VFM arrangements.

Reporting

We had no matters to report by exception in the audit report.

We updated our VFM arrangements work in February 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Financial sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services;

Governance

How the Council ensures that it makes informed decisions and properly manages its risks; and

· Improving economy, efficiency and effectiveness:

How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our VFM commentary highlights relevant issues for the Council and the wider public.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

How the body plans to bridge its funding gaps and identifies achievable savings

The Director of Finance & Resources (s151 officer) is responsible for ensuring the provision of appropriate financial information to enable budgets to be monitored effectively. He manages overall expenditure and income against budget allocations and reports to the Cabinet and Council on the Council's overall position on a quarterly basis. These reports include a forecast of the expected year end position, based on which timely decisions are made.

Finance Managers and Group Accountants are required to review their demand-led pressures, both existing and new, each December as part of budget setting. Other financial pressures such as subsidiaries losing a major customer are also considered. Both the extent and the probability of financial pressures occurring is reviewed.

Under the Council's standing financial rules, Directors have the following responsibilities in relation to cash limits, budget review and actions to correct over/under spends:

Financial sustainability (continued)

- (a) Directors are not authorised to exceed their annual cash limit.
- (b) Directors should review budgets on at least a monthly basis focusing on projected year-end variances which will be reported to Portfolio Holders, the Cabinet and City Council on a quarterly basis.
- (c) All overspendings that cannot be contained within cash limits, together with any projected underspending resulting in a net excess of £50,000 will be brought to the immediate attention of the relevant Finance Manager.
- (d) Action plans to address potential overall service overspendings and proposed use of significant underspending will be produced by the Director, in consultation with the Finance Manager, for approval by the Director of Finance & Resources (s151 officer) through the quarterly budget monitoring process or earlier if significant and necessary.
- (e) Prior approval of the Cabinet and Full City Council is required for any proposals The Council has had the that have the effect of increasing the overall approved City Council budget or approved future years forecast by:
 - (i) Creating financial commitments in future years
 - (ii) Changing existing policies, initiating new policies, or ceasing existing policies
 - (iii) Materially extending or reducing the Council's services.

We note that cost pressures arising in the previous year were properly considered in the 2020/21 budget and fed through to the formal update of the MTFS in December 2020. Plans to bridge funding gaps are contained in the Council's Budget and Medium Term Budget Forecast, which is approved by the Cabinet and Full Council each February. Each Autumn, directorates are required to contribute savings that are well in excess of target, giving the Councillors a choice of savings to accept, and / or introduce new services.

As part of setting the budget for 20221/22 in February 2021, The Council forecast General Fund balances from 2021/22 to 2024/25. This forecast showed that the General Fund Balance could drop to £13.1m in 2024/25 (from the 23.4m current year balance) as a result of a cumulative budget gap of £10.3m, though this would be met through savings as far as possible, to minimise the use of reserves. Once expected savings were taken into account, the forecast balance at 2024/25 increased to £19.1m, well above the minimum level set by the Director of Finance & Resources (s151 officer).

Historically the Council has a good track record of delivering savings targets. Whilst specific savings schemes could not be achieved due to the need to act on a responsive basis to the service delivery and other operational challenges brought about by the Pandemic, the Council nevertheless achieved overall financial balance for the 2020/21 year.

arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Financial sustainability (continued)

Savings with a lower impact on service provision will be prioritised and opportunities to make efficiencies or generate income will be favoured over reductions in services. The 2021/22 budget incorporates £1.3m of savings approved by Council, of which £1m relates to the full year impact of savings decisions taken as part of the annual budget setting meeting in the prior year.

As noted above, the Council has further savings that need to be identified for 2021/22 to 2024/25. However, as confirmed in the budget, if these required savings cannot be identified, the deficit will result in a draw down from the General Fund with the General Fund remaining above the required minimum balance of £8m.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The financial risks facing the Council are significant, but current indications are that the Council's financial position is stable. It is, however, essential that wider organisational plans continue to focus on improving efficiency, capability and The Council has had the capacity and value for money as a whole.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

it can continue to deliver Portsmouth City Council has 5 priorities which are as follows:

- 1. Make Portsmouth a city that works together, enabling communities to thrive and people to live healthy, safe and independent lives.
- 2. Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit.
- 3. Make our city cleaner, safer and greener.
- 4. Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures.
- 5. Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do.

These are designed to meet the shared aim of "Make Portsmouth a place that is fairer for everyone: a city where the council works together with thriving communities to put people at the heart of everything we do."

The Council recognises that the ability to meet these priorities and strategic aim will depend on its ability to obtain continued funding, at the same time as streamlining the way that residents access services whilst still protecting the most vulnerable. The Council recognises the need to target resources at the most vulnerable people whilst becoming more efficient in their delivery of services.

Financial sustainability (continued)

In response to this considerable financial challenge, the Council has followed a Medium Term Financial Strategy (MTFS) (for both revenue and capital) with an emphasis on regeneration, innovation and creativity, leading to stimulation of the funding base (council tax and business rates) and income generation as a means to make savings and avoid cuts to services. In particular the Council aims to:

- 1. Generate income by being innovative and creative;
- 2. Reduce the extent to which the population needs Council services through improving prosperity and managing demand;
- Increase efficiency and effectiveness by improving value for money across all 3. services
- Withdraw from or minimise provision of low impact services 4.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that its services.

This is explained in the Council's Budget and Medium Term Budget Forecast which is approved by the Cabinet and Full Council each February.

Savings targets are developed and allocated to each Portfolio, taking into account the strategic and statutory priorities of the Council. Priority is given to statutory it can continue to deliver services in terms of allocating a lower proportion of savings targets, and taken together with other budget allocations awarded, can result in a net annual gain for these services.

> Adult and Children's Social Care represents a significant proportion of Council spending, therefore when there has been the opportunity to raise an additional council tax precept for Adult Social Care, this has been taken and passported directly to the service to help ensure that service delivery can be sustained.

> In addition, the MTFS recognises that there are risks to the delivery of savings targets, particularly across the statutory services where demand can be more difficult to manage or changes can take time to implement. For those risks with the highest likely impact, mitigation strategies are developed.

> The budget setting process also examines in detail cost pressures and estimated demand pressures that service areas are experiencing. The data is subject to significant challenge and scrutiny, and where the pressure is expected to present a risk even after mitigation, then this will be considered as growth to be built in to the MTFS, for example with £2.8m of pressures built into the MTFS for Adult Social Care in 2021/22.

> The Council also uses the outcome of the public budget consultation to inform its spending priorities, both in terms of revenue and capital, to take into account the views of local electors.

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

In order to achieve its priorities as noted above, the Council has multiple strategies and policies covering its areas of operation. As an example, 'The Portsmouth Plan' is a strategy developed within the planning services department and includes a vision of "To make Portsmouth the premier waterfront city, with an unrivalled maritime heritage - a great place to live, work and visit". This is consistent with the second priority listed above, to "Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit". This demonstrates that the Council has strategies in place to ensure the achievement of their priorities.

arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Within the fifth priority of the Council (Make sure our council is a caring, competent The Council has had the and collaborative organisation that puts people at the heart of everything we do), there is a key emphasis on finance and ensuring financial sustainability. This is evidenced through the further detail included in the above referenced priorities document of "Being innovative in our approach to service delivery and taking a creative approach to generating income, so we can support local communities despite financial challenges". This priority links through to the Council's MTFS, into which other plans are also integrated.

> The capital programme is a key driver for the future financial sustainability of the Council and this is recognised in the MTFS. The capital budget is developed in conjunction with the revenue budget each year. In terms of funding for the capital programme, contributions from the revenue account are an important feature of the MTFS, as other capital resources are limited, and without planning to support the programme in this way, the Council would have insufficient resources to fund essential capital spend.

> The Council initially approved the ten-year capital strategy in 2019 but as the capital strategy is dynamic it is updated annually as capital investment plans mature. The purpose of the strategy is:

- 1. To enable the City Council to adopt a long term Capital Strategy from 2021/22 onwards:
- 2. To inform members and the wider community of the Council's Capital Strategy;
- 3. To ensure that Members are aware of the overall strategy, governance procedures and risk appetite;
- 4. To highlight the inter-relationship between business planning the Capital Strategy, Capital Programme, the Revenue budget, the MTFS and Treasury Management;

Financial sustainability (continued)

To ensure the council has sufficient liquidity to meet the cashflow arising from the capital programme.

2020/21 has clearly been an extraordinary year for the Council, with the Covid-19 pandemic providing a number of financial challenges and also having a significant impact upon the review and development of the MTFS for 2021/22 and beyond. The impacts have been felt both locally and nationally, making the budget setting process one of the most challenging in recent years for the Council.

The Council has had the arrangements we would expect to see to enable it can continue to deliver manner. its services.

The response to the direct challenges of Covid-19 by the Council, together with other partners including local NHS bodies, adult social care providers and neighbouring councils, whether in terms of social care, support to vulnerable individuals and families, safely re-opening schools, or supporting suppliers and partners including the NHS and school transport, has shown that it is able to react and respond quickly to meet challenges as they arise. Throughout the year, the Covid-19 pandemic has impacted the way the Council delivers its services to its customers and how it it to plan and manage its operates internally. Many service areas have had to adapt to different ways of resources to ensure that working to enable the Council to continue to operate in an efficient and effective

> How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

> Budgets are monitored and forecasts are updated on a monthly basis with quarterly budget monitoring reports presented to the Leader and Cabinet. The probability of unplanned changes in demand is considered each December when Finance Managers and Group Accountants are required to review their demand led pressures, including existing and new pressures.

> Early identification of pressures is key to maintaining financial resilience, for example the identification of unfunded estimated pressures relating to COVID-19 by the council in July 2020 resulted in early development of a deficit recovery strategy. This strategy forecast a total cost to the Council of £32m as a result of the pandemic which included £12m of additional costs as well as £15m anticipated loss of income. At the time that the strategy was developed, £12m of emergency Covid-19 funding had been received, resulting in an identified shortfall of £20m. Due to the timing of the initial development of the strategy, the extent of any additional funding from the Government was unclear and therefore, the strategy was developed to assess how the forecast shortfall could be recovered assuming no further Government assistance would be received.

Financial sustainability (continued)

It was determined that:

- £5m could be earmarked within the Council's corporate contingency (leaving a residual £5m for other known and unknown financial risks that may arise)
- £5m could be earmarked within the Medium Term Resource Strategy reserve (leaving a remaining £3m to fund future spend to save schemes and any costs of redundancies which may have been required)
- £10m could be recovered through capital schemes which have been funded by revenue and which could be placed 'on hold'

This was then updated throughout the financial year and the Cabinet meeting in December 2020 included an update to the Covid-19 Deficit Recovery Strategy which identified a reduction to the forecast overspend, reducing the deficit to £11.9m.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council has had the As noted above, the Council achieved the budgeted position for 2020/21 arrangements we would demonstrating that the impact of Covid-19 was appropriately managed over the year.

The Chief Executive is responsible for approving the Council's corporate risk management strategy and for reviewing the effectiveness of risk management. The Executive Leadership Team is responsible for overseeing the Council's risk management policy statement throughout the Council, with Executive Directors responsible for ensuring there are sufficient processes in place to identify, assess and capture risks within their directorates.

The Governance and Audit and Standards Committee (those charged with governance) review the adequacy of the risk management framework and the associated control environment, and scrutinise the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk.

The Council maintains, regularly updates and reports on a risk register. The Risk register is presented to members and is updated based on discussions and agreed actions.

The risks identified are consistent with our wider understanding of the Council, and consider service level impacts, and wider corporate issues.

Governance

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has a risk management policy that has been agreed by the Governance and Audit and Standards Committee, and has been cascaded to staff. The Governance and Audit and Standards Committee monitor the effectiveness of the council's overall risk management arrangements (including fraud) as part of the governance framework. The counter fraud programme and internal audit work contribute to the identification of fraud, alongside management information such as budget control.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Significant risk issues and mitigations are identified within the Annual Governance Statement (AGS), with progress against agreed actions monitored by the Governance and Audit and Standards committee. Breaches of internal control are highlighted through regular reporting to the Committee by internal audit.

Risk and opportunity management is practised throughout the Council and in its partnership working arrangements. The Council's risk management strategy is refreshed regularly is aligned to strategic risks and priorities. The Executive Leadership Team are responsible for updating and monitoring business risks at directorate level.

There is a directorate risk register which is reviewed by the Executive Leadership Team, Cabinet and Governance and Audit and Standards Committee.

IT systems provide a range of exception reporting which is used for control monitoring such as purchase orders raised after invoices received, unapproved purchase orders, and budget to actual variances including overspends.

The internal audit plan incorporates an appropriate level of coverage in respect of the Council's fundamental systems. Outcomes of external audit work during 2020/21 did not raise any significant deficiencies in the internal control framework.

The AGS contains an action plan to address identified issues, including matters raised in any limited assurance audit reports which are issued by internal audit. In addition, confirmation that all significant risks are being addressed is also captured as part of the AGS process. Action plans allocate responsibility to named officers, and set timeframes, to address deficiencies.

Governance (continued)

Minimising any losses to fraud and corruption is an essential part of ensuring that all of the Council's resources are used for the purposes for which they are intended. To facilitate this the Council has in place an anti-fraud and corruption strategy that sets out its overall policy in respect of fraud and corruption, and a confidential reporting policy giving staff the opportunity to report suspicions of fraud and corruption being perpetrated against or within the Council.

arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

There are appropriate policies for matters such as conflicts of interest, and security practices that are adequately communicated throughout the organisation. The Council has had the whistleblowing policy is in place which can be used by employees to raise concerns about the Council's business, including accounting, auditing, IT or internal control issues. Allegations of fraud or other concerns can be raised with internal audit.

> How the body approaches and carries out its annual budget setting process Aspects of the budget setting process are noted in other sections of this Commentary above.

> Under the Council's financial rules, Full Council is responsible for approving, or amending and approving, the budget as endorsed by the Director of Finance & Resources (s151 officer), and has a duty to consider the advice of the Director of Finance & Resources (s151 officer) in relation to all financial matters.

> Each autumn, the public and staff are consulted on the proposed budget, including council tax increases, priority service areas, and priority capital investment opportunities. Budget pressures are considered, and the directorates are required to identify budget savings. There are no targets for individual directorates as the Council wants to encourage co-operation across the Council. However, the Director of Finance & Resources (s151 officer) ensures that the total savings identified exceed the savings target by a considerable margin so that councillors have some choice over the budget savings that they adopt and / or can introduce or expand services. The savings targets are reconsidered in the autumn or winter if further budget pressures are identified during the year.

> Savings targets for the following 3 years are established in the MTFS which is approved by the Cabinet and Full Council as part of the overall budget setting process.

> We have confirmed that the budget for the current year was considered by Cabinet before submission to the Council for final discussion and agreement. We also note that that the Scrutiny Management Panel considered strategic issues relating to the budget, including comments on individual portfolios.

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

Under the Council's financial rules, the Cabinet is responsible for taking in-year decisions on resources and priorities in order to deliver the budget and policy framework within the financial limits set by the Council.

arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council has had the Forecast outturns are loaded into the Council's financial system each month from May onwards. Forecast outturns are reported to the Leader of the Council each quarter and to Cabinet. Remedial action is also reported when forecast overspends are identified.

> Our review of the Constitution of the Council confirms that there are processes and systems in place to ensure effective budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed.

> These processes and systems include the Director of Finance & Resources (s151 officer) reporting to the Cabinet on a regular basis as part of an overall performance management reporting process; this information is also included in reporting to Full Council. The quarterly budget monitoring report is the Council's monitoring and reporting mechanism for finance, performance (revenue and capital), savings delivery, and business performance of services. This is based on the actual results during the current year vs planned expenditure. The report includes both financial and performance reporting with areas identified that need corrective action based on the overspending incurred during the year, supplemented with details of how the Council plans to implement corrective action/savings to reduce the overspending.

Governance (continued)

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has a number of arrangements in place to ensure that appropriate decisions are made. Decisions are made at either meetings of all 42 members - the Full Council; at committees of Council, or at a meeting of all executive members - the Cabinet.

The Council's operating model is based on a Leader with Cabinet structure. The Cabinet is made up of executive members who have a portfolio of responsibilities. The Cabinet make decisions together on strategic issues.

Full Council is responsible for specified major decisions, such as setting the budget, and regularly debates topical issues. The Council receives reports from the Executive, and members are able to question the Executive on their areas of business.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council has a Scrutiny Management Panel responsible for scrutinising Cabinet decisions before or after they have been implemented, and holding the Cabinet to account. The Panel are also responsible for making recommendations on future policy options and for reviewing the general policy and service delivery of the Council.

The Governance and Audit and Standards Committee (those charged with governance) exercises overview and scrutiny functions in relation to audit issues, risk management and other general matters and reports to Full Council. The Committee is responsible for reviewing the external auditor's reports and the internal audit plan as well as the Chief internal auditor's annual report. The responsibilities of the Governance and Audit and Standards Committee cover 5 main functions:

- Audit Activity
- Regulatory Framework
- Accounts
- Other Functions
- Standards

The Council also has a Monitoring Officer (a role held by the City Solicitor). The function and role of the Monitoring Officer is stated with Council policy as follows:

Governance (continued)

"It is the role of the monitoring officer to ensure that the Council at all times acts lawfully and within its own rules and procedures as set down in the Council's constitution. In fulfilling this role the monitoring officer undertakes to discharge his responsibilities in a manner which will enhance the reputation of the Council."

The Constitution of the Council confirms that decisions should be made in accordance with the following principles:

- Fairness and equity
- Openness and transparency
- Due consultation, where appropriate, and with the benefit of professional advice from officers where appropriate
- With respect for human rights
- Within the law
- Within the letter and spirit of the Constitution

This helps ensure that all decisions will be made after appropriate due diligence as appropriate for the type of decision being made. In addition, the Council's Constitution also highlights those decisions which are deemed to be 'Key Decisions' and specifies the levels of approval that are required for such decisions.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Through our VFM work in 2019/20, we reviewed a major Council decision, and the processes and information which underpinned this. In August 2019, the Council completed the purchase of the Lakeside North Harbour office complex. The Council undertook detailed financial appraisals as part of its considerations ahead of proceeding with the purchase of Lakeside. These were informed by various aspects of the due diligence process, and involved setting out several different scenarios based on sensitivity analyses, and different underpinning rationales for the purchase.

Key briefing reports were presented to Cabinet by Tom Southall (Assistant Director of Regeneration) and Chris Ward (DoF), with explanatory detail provided, alongside the report itself, and then to Full Council following Cabinet approval. The minutes of Full Council show that, following the officers' presentation and an extended question and answer session, approval was given to proceed.

The above demonstrates that members were involved at the key stage of the process, that member involvement in the approval of the scheme was reasonable in terms of scope and timing, and that this was enabled by suitable information provided by officers.

Governance (continued)

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

All reports to committees are vetted for any legal matters by the City Solicitor/Monitoring Officer who includes a statement as to the legality of any proposed actions. The City Solicitor updates Members on new legislation, and its impact on the Council, and keeps the Council Constitution under review. In addition to this, the reports are also vetted by the Director of Finance & Resources (s151 officer) or his representative, who has a statutory responsibility for reporting any unlawful expenditure to the council. Members also receive training as required. Reports also include details relating to consideration of equalities issues.

As part of its constitution, the Council has a Code of Conduct which lets all staff know the standards of conduct expected, both within work and away from work and includes their duties to:

- promote equality by not discriminating unlawfully against any person
- maintain good working relationships with colleagues, organisational partners, members and customers
- declare any personal, financial, or social interest to the relevant head of service, if that interest:
 - o conflicts with the interests of the council, or
 - could cause the employee's behaviour, or motivation, to be questioned
- follow the council's gifts and hospitality policy and declare any offers of such
- report any suspicious activities or concerns about fraud, corruption or malpractice
- maintain political neutrality in their work
- safeguard confidential information

The above is not an exhaustive list and all staff are expected to have read the Code in full, and to abide by its terms. Both the Code of Conduct and the Constitution are public information. As confirmed in the employee code of conduct, any breaches of the code could lead to disciplinary action and may constitute gross misconduct. Disciplinary procedures relating to senior officers are set out in the Constitution.

The Council also has a Code of Conduct for elected members which sets out the general obligations of members, interests they are required to declare, and a requirement not to participate in decisions where they have a prejudicial interest. There are also specified procedures for breaches of the members' Code of Conduct, with the assessment of breaches undertaken by the Governance and Audit and Standards Assessment Sub-Committee.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

We note from our minute review that there is a standing agenda item at each committee pertaining to any conflict of interest declarations that need to be made. Officers and Members of the Council also need to submit an overall annual declaration of interest which is included on the Council's website. The register of interests is a key source of information that underpins the Council's considerations of its related party disclosures in the statement of accounts.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement.

Forecast outturns are reported to the Leader of the Council and Cabinet each quarter. Remedial action is also reported when forecast overspends are reported.

Monitoring of the achievement of savings proposals is managed via routine budget monitoring and reporting processes to budget managers and portfolio holders, alongside the quarterly monitoring reports to Cabinet.

Strong budget discipline is maintained during both the budget setting process and inyear, with only ongoing and realistic savings being permitted to "count" towards the approved savings targets and in year remedial actions being required to be developed to mitigate any identified areas of potential overspending. One off or "speculative" savings are not counted towards the savings target.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

As a consequence of both budget discipline and decisions taken over the last 10 to 12 years, the savings requirement of £1m per annum until 2024/25 is relatively modest and achievable whilst maintaining the GF balance well in excess of its minimum level of £8m.

Revised portfolio income and expenditure forecasts are compiled and updated into the Council's financial system on a monthly basis. This enables timely comparisons between the approved budget and forecast outturn, with reasons for variances being fully understood along with proposed remedial actions where an overspend is being forecast.

Departments are required to substitute any unachievable savings with an alternative of equivalent value, meaning a remedial action is required where an original saving proposal may have become undeliverable due to unforeseen circumstances. This ensures net portfolio spending remains within the spending envelope approved by City Council. The requirement to identify remedial actions is also reinforced each quarter in the monitoring report to Cabinet.

Improving economy, efficiency and effectiveness (continued)

As a consequence, the budget monitoring mechanism is robust and fully integrated and there is no requirement to monitor individual savings proposals invear separately from routine budget monitoring.

The Council has a good track record of implementing and realising savings in a timely manner as a result of the integrated approach outlined above and as a consequence has, and is forecast, to maintain a GF balance well in excess of the £8m minimum level set by the Director of Finance & Resources (s151 officer) over the medium term.

In addition, while preparing the budget for next year, each Directorate considers the prior year overspending (if any) and looks for the areas where improvement can be made to reduce the spending.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

How the body evaluates the services it provides to assess performance and identify areas for improvement

We have noted above a number of ways in which the Council evaluates services and identify areas of improvement. These include the review of the risk registers, and consideration of the results of external inspections. Each directorate reports to the Governance and Audit and Standards Committee on its performance each quarter. In compiling reports, directors are asked to consider priority performance areas, projects and risks.

The Council continues to monitor and review the MTFS to ensure that plans are aligned to the changing environment especially given the uncertainties caused by COVID-19 and the impact of the pandemic on the Council's operations and finances.

As an example of an external inspection, in 2020, a Joint Targeted Area Inspection looked at how partners in the Portsmouth area were working together to support children with mental ill health. The report identified a number of areas of strength and good quality service provision, giving the Council positive assurance over this area of activity.

The results of internal and external audit work are also considered to identify areas of improvement regarding internal control and financial systems and processes.

Improving economy, efficiency and effectiveness (continued)

Through a combination of the above, the Council aims to ensure that areas for improvement are identified within their services.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

Each autumn, the public and staff are consulted on the budget including council tax increases, priority service areas, and priority capital investment opportunities. Each directorate reports to the Governance and Audit and Standards Committee on its performance each quarter as noted above.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The city has strong partnership working arrangements, with other local authorities and with colleagues in the health sector, including the clinical commissioning group (CCG), Solent NHS Trust, Portsmouth Hospitals University Trust, the police, probation, fire service, University of Portsmouth and with business through Shaping Portsmouth. For many years, the Council had three key theme-based strategic partnerships - the Health and Wellbeing Board, Children's Trust, and the Safer Portsmouth Partnership. Following a review, these partnerships were merged into a single Health and Wellbeing Board. This new board has a wider remit and membership, and will improve efficiency and ensure that issues are being considered strategically and as they affect people and the city across all dimensions. There are other partnership arrangements around the city's regeneration efforts such as the Solent Local Enterprise Partnership (LEP), Solent Transport, and the Partnership for South Hampshire (PfSH). In addition, Portsmouth City and Gosport Borough Council have come together to form the 'Portsmouth Harbour Partnership' to bid in the central government's One Public Estate programme.

Other examples of working together include the sharing of key management posts with other authorities (such as Gosport and the Isle of Wight) and developing shared services across authorities. Partnerships with colleagues in the health sector have developed strongly over time, including the strengthening of links with the CCG under the Health and Care Portsmouth umbrella, moving to a model for shared functions across adult services, children's services and public health. This is intended to ensure that services for Portsmouth's population are commissioned and delivered with a strong understanding of local communities and their needs, and to support the development of a new Integrated Care System for Hampshire and the Isle of Wight.

Improving economy, efficiency and effectiveness (continued)

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Whenever money is being spent with an external provider, staff are required to follow the Council's contract procedure rules, to ensure that relevant legislation is complied with, and professional standards and internal polices are complied with.

The performance of contractors against their contracts is regularly recorded in the Council's contract register.

We note that the Governance and Audit and Standards Committee is responsible for the overview of procurement and contract management. During its meetings the Committee will discuss and review the performance of contracts and evaluate the extent to which the Council is procuring contracts for goods, works and services in a legally compliant way and which deliver value for money.

These arrangements help to ensure that the Council procures services in accordance with relevant legislation, professional standards and internal policies, and enables the Council to monitor whether the procured services are realizing the expected benefits aligned to the strategy of the Council and its future plans.

Recommendations

We have no recommendations to make for the Council.

As a result of the VFM procedures we have carried out we have no recommendations to make.

The Council faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Forward look

The financial challenges facing the Council and the local government sector more widely remain significant

We will continue to review the Council's arrangements to address these challenges as part of our 2021/2022 value for money risk assessment and procedures.



Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council's governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued by HM Treasury. We will liaise with the Council to complete this work as required.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Governance and Audit and Standards Committee.



Audit Fees

The scale fee for 2020/21 is in line with the audit fee reported in our Audit Plan and Audit Results Report. Included below are details of the proposed additional fees for 2020/21.

	Final Fee 2020/21	Planned Fee 2020/21	Final Fee 2019/20
Description	£	£	£
PSAA Scale Fee	115,067	115,067	115,067
2019/20 fee variation determined by PSAA (Note 1)			48,112
2020/21 PSAA expected additional minimal core fees (Note 2):			
• VFM	TBC	10,000 – 19,000	
ISA 540 accounting estimates		4,400	
2020/21 proposed fee variation - other (Note 3)	TBC		
Total Fees	TBC	129,467 to 138,467	163,179

Notes:

- (1) In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £80,727. We also submitted an in-year fee variation of £30,020. PSAA has determined the total fee variation across both elements for 2019/20 as £48,112. We expect similar costs in nature in 2020/21 and subsequent years. However, PSAA has stated that this will need to be determined each year.
- (2) Note 2 In August 2021, PSAA published 'Additional information for 2020/21 audit fees'. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes of a range of new and updated audit requirements. PSAA determined a minimum range for VFM (£10k-£19k) and a minimum amount for ISA540 (£4.4k).
- (3) Note 3 Any further additional fees (over and above VFM and ISA540) for 2020/21 will be communicated to the Director of Finance and Resources as soon as possible, once confirmation has been received from PSAA of the process to be followed (pending at the time of writing this report).

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

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Agenda Item 5



THIS ITEM IS FOR INFORMATION ONLY

(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)

Title of meeting: Governance & Audit & Standards Committee

Subject: Data Security Breaches Report

Date of meeting: 4 March 2022

Report by: Elizabeth Goodwin, Senior Information Risk Owner

Wards affected: All

1. Requested by

Governance & Audit & Standards Committee

2. Purpose

To inform the Committee of any Data Security Breaches which have occurred since the last report (September 2021) and update the committee on any subsequent action which has been taken to address them.

3. Information Requested

The appendix provides an overview of the breaches that have occurred since October 2021.

85% of all incidents were as a result of human error which represents an increase of 4% compared to the last reporting period. This is consistent with national trends identified in regular reports issued by the Information Commissioner's Office and National Cyber Security Centre.

As part of the breach reporting process, the Information Governance team works with the relevant business area to review what happened and to identify what action can be taken to prevent any reoccurrence of a similar error in future.

None of the incidents in the reporting period reached the threshold for reporting to the Information Commissioner's Office (ICO). A response was received from the ICO in January 2022 in relation to a previously reported incident, the outcome being that no further action was required.



THIS ITEM IS FOR INFORMATION ONLY

(Please note that "Information Only" reports do not require Integrated Impact Assessments, Legal or Finance Comments as no decision is being taken)

	In all cases reported to date, the ICO has been satisfied that the council has investigated the breach appropriately and taken all possible steps to mitigate the risk to individuals.
 S	igned by Elizabeth Goodwin, Senior Information Risk Owner

Appendices:

Data Security Breaches report Oct 2021 to Feb 2022 - Appendix A

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
ICO Guidance "Report a Breach"	https://ico.org.uk/for-organisations/report-a-breach/
UK General Data Protection Regulation	UK GDPR Updated for Brexit UK GDPR (uk-gdpr.org)



Data Security Breach Report Appendix A

Executive Summary

This report has been prepared to provide an update on data breach incidents for the period from Friday, Oct 1 2021 to Wednesday, Feb 16 2022.

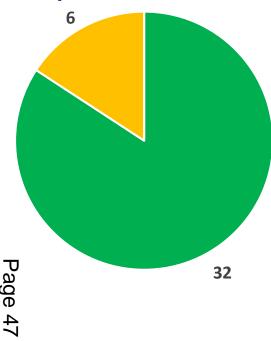
Clear guidance is provided to staff, via training and Policy Hub, regarding what constitutes a potential data breach and the steps they should take when a potential data breach is identified.

The Council's response to potential data breaches is managed by a central team, following the stages summarised below:

- Notification to central team.
- Initial assessment by central team.
- Escalation to the Senior Information Risk Owner SIRO (Chief Internal Auditor) if necessary; this may lead to the Information Commissioner (ICO) being notified, dependent on the severity of the incident.
- Remedial action, for example corrective action, training, revised processes and potential disciplinary action.

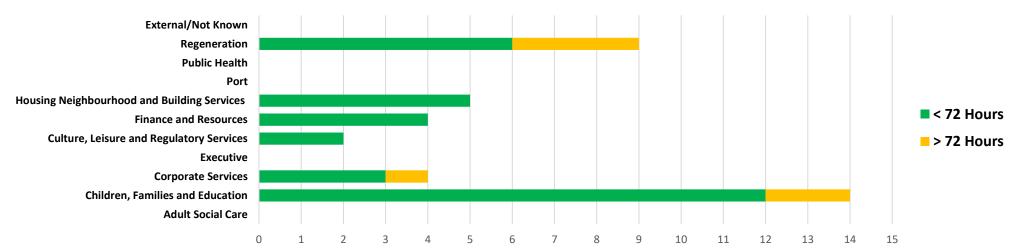
Overall there have been 38 data breaches, 32 being notified to the central team in under 72 hours and 0 requiring notification to the ICO. Responses by the ICO are shown below:

Response Time



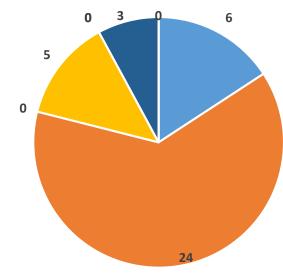
	< 72 hours	> 72 hours	TOTAL
Adult Social Care	0	0	0
Children, Families and Education	12	2	14
Corporate Services	3	1	4
Executive	0	0	0
Culture, Leisure and Regulatory Services	2	0	2
Finance and Resources	4	0	4
Housing Neighbourhood and Building Services	5	0	5
Port	0	0	0
Public Health	0	0	0
Regeneration	6	3	9
External/Not Known	0	0	0
TOTAL	32	6	38

Response time is the time taken for the central team to be notified by the service within which the breach has taken place. ICO guidance is that this should take place within a maximum72-hour timeframe.



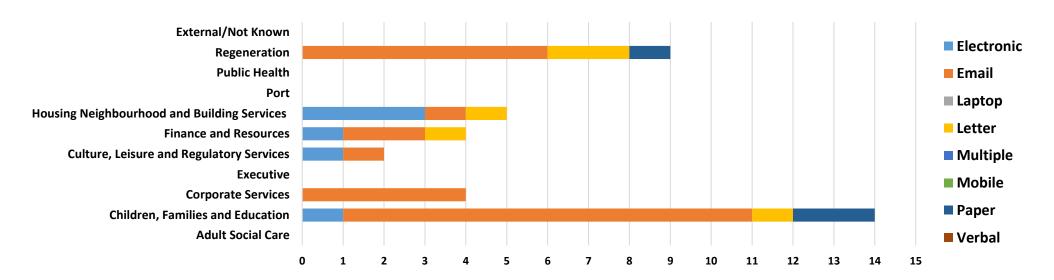
Medium

Page 48

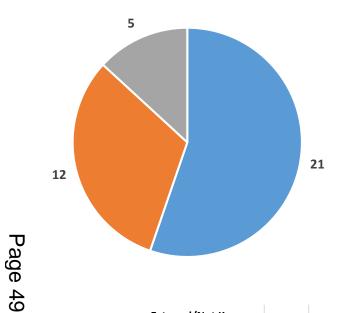


	Electronic	Email	Laptop	Letter	Multiple	Mobile	Paper	Verbal	TOTAL
Adult Social Care	0	0	0	0	0	0	0	0	0
Children, Families and Education	1	10	0	1	0	0	2	0	14
Corporate Services	0	4	0	0	0	0	0	0	4
Executive	0	0	0	0	0	0	0	0	0
Culture, Leisure and Regulatory Services	1	1	0	0	0	0	0	0	2
Finance and Resources	1	2	0	1	0	0	0	0	4
Housing Neighbourhood and Building Services	3	1	0	1	0	0	0	0	5
Port	0	0	0	0	0	0	0	0	0
Public Health	0	0	0	0	0	0	0	0	0
Regeneration	0	6	0	2	0	0	1	0	9
External/Not Known	0	0	0	0	0	0	0	0	0
TOTAL	6	24	0	5	0	0	3	0	38

These refer to the format in which the data breach occurred. Often data breaches can occur across multiple mediums. Where this is the case data breaches are recorded against 'multiple' on this page, with more detail provided on the detail summary, towards the back of this report.

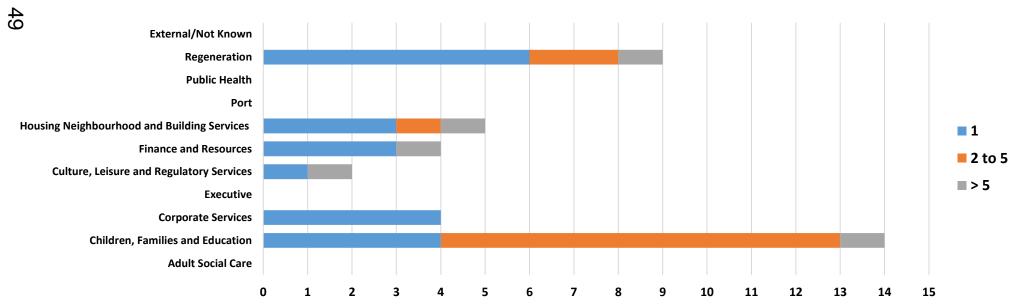


Number Impacted



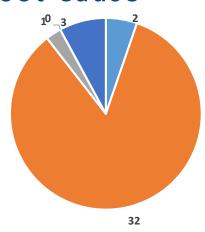
	1	2 to 5	> 5	TOTAL
Adult Social Care	0	0	0	0
Children, Families and Education	4	9	1	14
Corporate Services	4	0	0	4
Executive	0	0	0	0
Culture, Leisure and Regulatory Services	1	0	1	2
Finance and Resources	3	0	1	4
Housing Neighbourhood and Building Services	3	1	1	5
Port	0	0	0	0
Public Health	0	0	0	0
Regeneration	6	2	1	9
External/Not Known	0	0	0	0
TOTAL	21	12	5	38

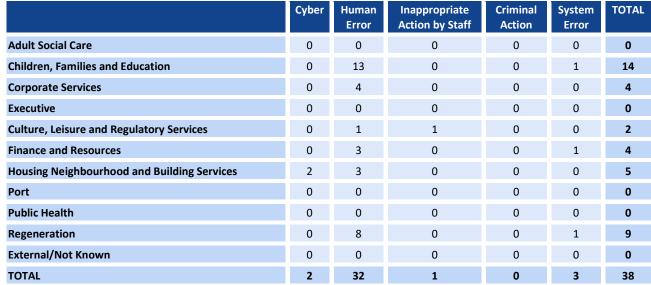
Totals refer to the number of individuals either confirmed or likely to have been impacted.

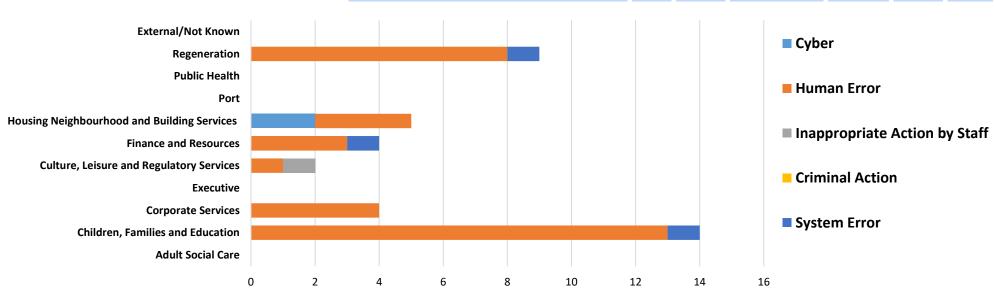


Root Cause

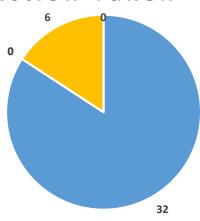
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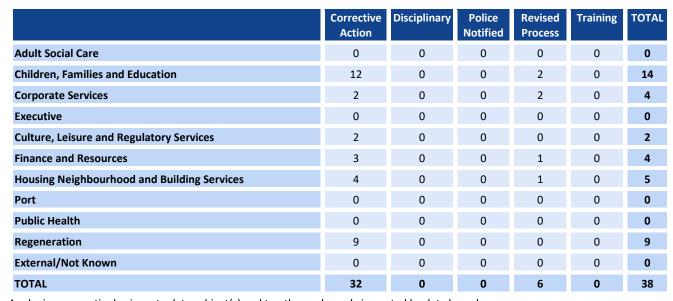


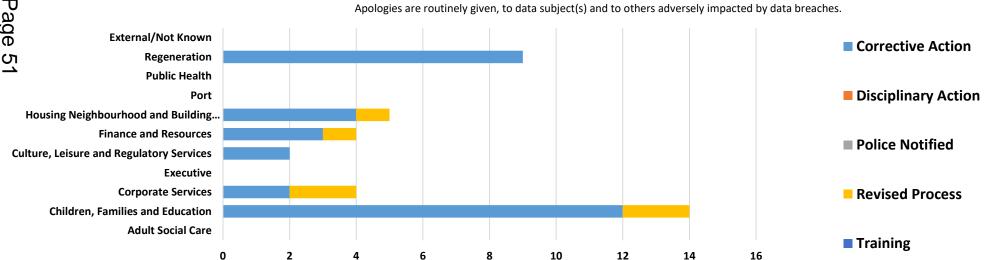




Action Taken







Data Breaches Summary

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2021069	Children, Families and Education	Y	N	Human Error	Revised Process	Educational psychology report sent to wrong parent
DB2021070	Corporate Services	Y	N	Human Error	Revised Process	New starter documentation emailed to wrong manager
DB2021071	Children, Families and Education	Y	N	Human Error	Corrective Action	Looked After Child progress report emailed to the wrong foster carer
DB2021072	Regeneration	Y	N	Human Error	Corrective Action	Internal email containing customer names and driving licence sent to resident
ည ္ 2021073 ည ထ	Corporate Services	Y	N	Human Error	Corrective Action	Email sent to the wrong complainant
© B2021074	Corporate Services	Y	N	Human Error	Revised Process	Benefit decision notification sent to the Removal Firm rather than to the landlord/claimant
DB2021075	Children, Families and Education	Y	N	Human Error	Corrective Action	Email sent to the wrong address
DB2021076	Children, Families and Education	N	N	Human Error	Corrective Action	Child Protection report sent to wrong professionals
DB2021077	Regeneration	N	N	Human Error	Corrective Action	Blue badge sent to the badge holder's previous address
DB2021078	Regeneration	N	N	Human Error	Corrective Action	Email sent to the wrong address
DB2021079	Housing Neighbourhood and Building Services	Y	N	Human Error	Corrective Action	Sensitive document scanned to the wrong email account

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2021080	Children, Families and Education	Y	N	Human Error	Corrective Action	Email sent to the wrong staff member with the same name as the intended recipient
DB2021081	Finance and Resources	Y	N	Human Error	Corrective Action	Email sent to the wrong address (as supplied by the data subject)
DB2021082	Children, Families and Education	Y	N	System Error	Revised Process	GP received information from PCC relating to a patient no longer registered with the practice
DB2021083	Finance and Resources	Y	N	System Error	Revised Process	Incorrect user ID assigned to a user's record in Fusion
DB2021084	Housing Neighbourhood and Building Services	Y	N	Human Error	Corrective Action	Letter sent to the wrong address
© B2021085 ①	Regeneration	Υ	N	Human Error	Corrective Action	List of names found in PCC laptop bag returned to IT
OB 2021086	Children, Families and Education	Y	N	Human Error	Corrective Action	Post sent to old address
DB2021087	Children, Families and Education	Y	N	Human Error	Corrective Action	Email sent to wrong professionals' email address
DB2021088	Housing Neighbourhood and Building Services	Y	N	Cyber	Corrective Action	Addresses of 4 PCC tenants disclosed as a result of cyber attack on contractor
DB2022001	Children,Families & Education	Υ	N	Human Error	Corrective Action	Email sent to wrong recipient
DB2022002	Children, Families and Education	N	N	Human Error	Corrective Action	Email sent to wrong address

Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2022003	Housing Neighbourhood and Building Services	Y	N	Cyber	Revised Process	Confidential meeting invitations visible in Outlook calendar entries
DB2022004	Children, Families and Education	Y	N	Human Error	Corrective Action	Post sent to old address
DB2022005	Regeneration	Υ	N	Human Error	Corrective Action	Complaint to PCC emailed directly to the company that was the subject of the complaint
DB2022006	Regeneration	N	N	Human Error	Corrective Action	PCN details visible through envelope window
DB2022007	Culture, Leisure and Regulatory Services	Y	N	Inappropriate Action by Staff	Corrective Action	Staff shared password
P 28 20222008 51 4	Housing Neighbourhood and Building Services	Y	N	Human Error	Corrective Action	Email sent to wrong address
DB2022009	Regeneration	Y	N	System Error	Corrective Action	Staff members inappropriately allowed access to each other's mailboxes
DB2022010	Children, Families and Education	Y	N	Human Error	Corrective Action	Lost PCC mobile phone
DB2022011	Children, Families and Education	Y	N	Human Error	Corrective Action	Email sent to wrong distribution list
DB2022012	Finance and Resources	Y	N	Human Error	Corrective Action	Payroll file sent to incorrect school
DB2022013	Regeneration	Υ	N	Human Error	Corrective Action	Member of public copied into email in error
DB2022014	Regeneration	Υ	N	Human Error	Corrective Action	E-mail sent to wrong recipient

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Reference No.	Directorate	Response in 72 Hours	Reported to ICO	Root Cause	Action	Comments, including detail where a breach spans multiple mediums
DB2022015	Finance and Resources	Y	N	Human Error	Corrective Action	Letter sent to wrong PCC staff member
DB2022016	Children, Families and Education	Υ	N	Human Error	Corrective Action	Email copied to wrong staff member
DB2022017	Children, Families and Education	Y	N	Human Error	Corrective Action	Email sent to wrong recipients
DB2022018	Corporate Services	N	N	Human Error	Corrective Action	Email sent to wrong PCC email address

Glossary

Information Commissioner's Office (ICO)

The Information Commissioner's Office is a non-departmental public body which reports directly to the United Kingdom Parliament and is sponsored by the Department for Digital, Culture, Media and Sport. Its role is to uphold information rights in the public interest.

https://ico.org.uk/

Response time/Notifying the ICO of Data Breaches

The ICO needs to be notified of more serious data breaches. A self-assessment is available on the ICO's website, to identify if it needs to be notified of a data breach. This needs to be done within 72 hours, which is the key response metric monitored by the internal team.

https://ico.org.uk/for-organisations/report-a-breach/personal-data-breach-assessment/

Medium

The is the format of the information constituting the data breach. In the summary graph towards the beginning of the report where a breach occurs in multiple formats this is at a standard as 'multiple'; more detail is provided in the comments column of the data breaches detail page within this report.

(C) Ngmber Impacted

is the number of individuals whose personal information was potentially compromised through a data breach.

Root Cause

The categories of root cause are based on guidance for the NHS Security Toolkit; this is widely used across the public sector, to assess arrangements against good practice.

Action Taken

These are the primary actions taken to respond to/rectify a data breach; all breaches result in an apology to those impacted.