



NOTICE OF MEETING

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

FRIDAY, 24 JULY 2020 AT 2.00 PM

VIRTUAL MEETING - REMOTE

Telephone enquiries to 023 9283 4058

Email: Vicki.plytas@portsmouthcc.gov.uk

Membership

Councillor Leo Madden (Chair)
Councillor Simon Boshier (Vice-Chair)
Councillor Chris Attwell
Councillor John Ferrett
Councillor Judith Smyth
Councillor Neill Young

Standing Deputies

Councillor Matthew Atkins
Councillor Ben Dowling
Councillor Graham Heaney
Councillor Donna Jones
Councillor Terry Norton

(NB This Agenda should be retained for future reference with the minutes of this meeting.)

Please note that the agenda, minutes and non-exempt reports are available to view online on the Portsmouth City Council website: www.portsmouth.gov.uk

Deputations

A written deputation stating to which agenda item it refers must be received by the officer named at the top of the agenda **by 12 noon two working days preceding the meeting.**

Any written deputation received by email will be sent to the Members on the relevant decision making body and be referred to and read out at the meeting within permitted time limits.

AGENDA

1 Apologies for Absence

2 Declarations of Members' Interests

3 Minutes of the meeting held on 3 March 2020 (Pages 5 - 16)

RECOMMENDED that the minutes of the meeting held on 3 March 2020 be approved and signed by the Chair as a correct record.

4 Financial Impact of Covid 19 Pandemic (Pages 17 - 28)

The report is brought to this committee for information only.

The purpose is to:

- Describe the overall forecast financial impact of the Covid -19 pandemic in 2020/21
- Explain the extent of the financial support that has been provided by the Council in response to the pandemic and the approach taken
- As a consequence of the Covid-19 pandemic, evaluate the financial resilience of the Council and its exposure to the prospect of the S.151 Officer issuing a Section 114 Notice
- Propose a financial strategy to Cabinet to remain within the Budget parameters approved by the City Council in February 2020

The report is for noting.

5 Draft Annual Governance Statement (Pages 29 - 50)

The purpose of the report is to seek approval from the Governance and Audit and Standards Committee for the council's draft Annual Governance Statement (AGS) for 2019/20.

RECOMMENDED that the Governance and Audit and Standards Committee are asked to agree the Annual Governance Statement 2019/20 (Appendix 1).

6 External audit 2019 to 20 Audit Planning report update (Pages 51 - 64)

External Audit update report for information only.

7 Summary of Procurement Compliance Figures/Covid 19 impact - information report. (Pages 65 - 74)

The purpose of the report is to provide evidence to allow the committee to evaluate the extent that Portsmouth City Council is producing contracts for goods, works and services in a legally compliant value for money basis.

The report is for information only.

8 Audit Plan 2020/21 - Updates/changes as a result of COVID-19. (Pages 75 - 86)

This report is to update the Governance and Audit and Standards Committee on the revised Internal Audit Plan for 2020/21.

In addition, the report notes how internal audit will conduct post COVID-19 assurance work which will influence both the Annual Audit Opinion 2020/21 and the Annual Governance Statement 2019/20 & 2020/21.

RECOMMENDED that Members note the changes to the Audit Plan 2020/21.

9 Audit Performance Status Report to 30th June 2020 & Annual Audit Opinion 2019/20. (Pages 87 - 136)

Purpose

- (1) This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2019/20 to 30th June 2020 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.
- (2) In addition to this the Annual Opinion on the effectiveness of the Internal Control Environment is provided in the attached Appendix B. This opinion feeds into the Annual Governance Statement and is a requirement of the Local Government Act 1999 and the Public Sector Internal Audit Standards.

RECOMMENDED that Members

- (1) **Note the Audit Performance for 2019/20 to 30th June 2020.**
- (2) **Note the highlighted areas of concern in relation to audits completed from the 2019/20 Audit Plan, including follow up work performed.**
- (3) **Note the Annual Audit Report and Opinion for 2019/20.**

10 Criminal Finance Act 2017 - Tax Evasion Policy - information report (Pages 137 - 148)

The purpose of the report is to inform members of the requirements placed upon the council in relation to the legislation as set out in the Criminal Finance Act 2017 with regards to Tax Evasion.

The report is for information.

This meeting is webcast (videoed), viewable via the Council's livestream account at <https://livestream.com/accounts/14063785>

Agenda Item 3

GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Tuesday, 3 March 2020 at 4.00 pm in the Executive Meeting Room, Third Floor, 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 Leo Madden (in the chair)

Councillor Graham Heaney
Councillor Hugh Mason
Councillor Terry Norton
Councillor Neill Young

Officers

Peter Baulf, City Solicitor and Monitoring Officer
Elizabeth Goodwin, Chief Internal Auditor
Paul Somerset, Deputy Chief Internal Auditor
Julian Pike, Deputy Head of Finance & Deputy S151 Officer
Michael Lloyd, Directorate Finance Manager
Kelly Nash, Corporate Performance Manager
Charlotte Smith, Assistant Director, Communications
Greg Povey, Assistant Director Contracts, Procurement, Commercial

External Auditors

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

1. Apologies for Absence (AI 1)

Apologies for absence were received on behalf of Councillors Simon Boshier, John Ferrett and Judith Smyth.
Councillor Terry Norton deputised for Councillor Boshier and Councillor Graham Heaney deputised for Councillor Judith Smyth.

(The Chair agreed to vary the order of items on the agenda but these have been kept in their original place for ease of reference.)

2. Declarations of Members' Interests (AI 2)

There were no declarations of members' interests.

3. Minutes of the Meeting held on 20 September 2019 (AI 3)

RESOLVED that the minutes of the meeting held on 20 September 2019 be approved and signed by the Chair as a correct record.

4. Treasury Management Monitoring Report for the Third Quarter of 2019/20 (AI 4)

(TAKE IN REPORT)

Michael Lloyd introduced the report explaining that there had been no breaches of the Treasury Management Policy. He said there had been no new borrowing in Quarter 3.

During discussion

- With regard to page 23 concerning cheaper sources of borrowing, Mr Lloyd said he considered it would be possible to find cheaper rates of borrowing in the new environment - probably around 0.3% less than borrowing from the Public Works Loan Board.(PWLb)
- In response to a query about why the PWLB had increased its rates, Mr Lloyd said that local authorities had been increasingly investing in commercial property - sometimes borrowing huge amounts of money from PWLB to do so. It seems that government was not entirely happy with this situation. Increasing the PWLB rates is a way of dissuading local authorities from acting in this way although there are likely to be other factors influencing that decision - such as the PWLB approaching the limit on what it can lend. He confirmed the increase in rates would have an impact on all borrowing - not just that for commercial purposes.
- It was confirmed that the Hampshire Community Bank had still not received its Banking Licence but that it was expected before long. Mr Lloyd said he would let Committee members know as soon as he could as to when the Banking Licence would be obtained and would also provide information on when the City Council could expect a return on its investment.

RESOLVED that the Committee noted

- (1) That the Council's Treasury Management activities have remained within the Treasury Management Policy 2019/20 in the period up to 31 December 2019**
- (2) The actual Treasury Management indicators as at 31 December 2019 set out in Appendix A.**

5. Treasury Management Policy for 2020/21 (AI 5)

(TAKE IN REPORT)

Michael Lloyd introduced the report advising that the report was before this committee for scrutiny and comment and that it would also be going on to Cabinet and then to Full Council on 17 March for approval. He detailed the recommendations in the report.

The main changes are a recommendation that preference should be given to investments that support the environment, have a beneficial social impact and good governance - provided that these do not increase the risks to the Council in terms of security of investment or liquidity nor which give lower returns.

The other main change concerns lending to the Hampshire Community Bank. Previously loans were to be secured on loans given by the bank which in turn were to be secured on tangible fixed assets. However many of the Bank's potential borrowers do not have tangible assets. A recommendation has been included this time to allow lending to HCB to be secured on loans made by HCB to small and medium sized enterprises on the highest credit quality which may not in turn be secured on tangible fixed assets. In addition it is recommended that the maximum duration of loans to HCB be reduced from 10 to 5 years.

In answer to queries

- The risk of default will be addressed by ensuring loans are given to counterparties of good credit-worthiness. In case of default, HCB will secure on personal guarantees which it is accepted are not as good as securing on tangible assets. However the risk is also mitigated by reducing the duration of the loans.
- The City Solicitor confirmed that loans secured on tangible assets are more secure, but loans secured on personal guarantees are quite common and there is no legal difference.
- It was confirmed that investing in an environmentally friendly and socially beneficial way will not necessarily produce lower returns. Environmentally harmful concerns are likely to be subject to more stringent regulations in future.

The Chair complimented the author on a well-written report.

RESOLVED that the Committee noted the recommendations in section 3 of the report that will go on to Cabinet and then to Full Council for approval.

6. External Auditors -2019/20 Audit Plan (AI 6)

(TAKE IN PLAN)

Helen Thompson and David White, external auditors, first updated the Committee on matters relating to the timing of the audit. Auditors are required to deliver quality audits both in the corporate and public sectors but there has been a shortage of suitably qualified staff across the audit profession to carry out the work required. The timing of audits to meet deadlines has become an issue given the volume of work and the shortage of staff. It has now been established that the 31 July deadline means that narrative statements have to be published by then - with or without an audit opinion.

The external auditors have been in discussion with Portsmouth City Council (PCC) and the Chair of this Committee in relation to the timing of PCC's audit and were very grateful that agreement had been reached to re schedule it to a later date. They assured the Committee that this is in no way a reflection on the quality of PCC's financial statements or officers but is a mutually agreed position. It will have no reputational impact on PCC but will allow external auditors more time to do the necessary work. External Audit is now looking to re-schedule the work to start in August/September until October aiming to report to this Committee at its November meeting.

The Chair commented that he had no issues with this provided it was above board and legal. This assurance was given.

In response to concerns that this would mean risks potentially not being identified till much later in the year, the Committee was assured that risks most likely to have an impact had already been identified as part of the interim audit and that the auditors would be in close contact with officers all the way through the work. If anything unexpected were to be identified as a risk, the External Auditors would advise PCC as soon as they became aware of that. The timing of meetings to fit in with the audit work and finance work would be reviewed by Finance staff and Democratic Services.

With regard to the Audit Plan, David White drew Members' attention to the risks set out in section 02 of the Audit Planning report. External auditors are required to include the first two risks but there is a newly identified risk relating to the acquisition of Lakeside. He advised that this would require a specialist valuation which was already underway.

David White also drew Members' attention to page 16 of the Audit Planning report in relation to IFRS 16 - Leases. Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. The Code has yet to be published although guidance to practitioners is available. The main impact of IFRS 16 is to remove (for lessees) the traditional distinction between finance leases and operating leases as detailed in the report. Assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. Work would be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

In response to a query, it was confirmed that when the Code is published, this was not expected to cause PCC any problems as officers have the necessary work in hand.

The Committee noted the contents of the 2019/20 Audit Plan.

7. Corporate Complaints (updated)(information only) (AI 7)

(TAKE IN REPORT)

Charlotte Smith, Assistant director of Corporate Services, introduced the report which was to provide additional information requested by the Committee in relation to complaints upheld by the Local Government and Social Care Ombudsman (LGSCO).

The report concluded that the number of complaints referred to and upheld by the LGO has remained relatively static and PCC continues to compare well with other local authorities.
The Chair thanked officers for the report and asked for this level of detail to be included in future reports.

The Committee noted the updated information only report.

8. Members' Training Report (information only) (AI 8)

(TAKE IN REPORT)

The City Solicitor, introduced the report which updated the Committee on the 2020 training programme for councillors and reported on the training undertaken by elected members in 2019.

Training is provided and it is up to Members to access it as appropriate.

During discussion

- Although training is not compulsory as such, Members would not be allowed to sit on some committees/panels without first being trained.
- The Chair commented that Group Leaders could be pro-active in encouraging their members to complete relevant training.

The Committee noted the updated information only report.

9. Appointment of Independent Persons (AI 9)

(TAKE IN REPORT)

The City Solicitor introduced the report which outlined the reasons for the suggested appointment of two additional Independent Persons under the provisions of the Localism Act 2011.

There are currently two Independent Persons whose appointments expire in 2021. It is considered that the appointment of an additional two Independent Persons will assist with the complaints process.

The City Solicitor advised that following an advertisement for additional Independent Persons, interviews were held on 6 February 2020. The Member Panel (that included the Chair and Vice Chair of Governance & Audit & Standards Committee) recommended that Mark Walsh and John Young be appointed.

The Committee endorsed the Member Panel's recommendation.

RESOLVED that the Committee recommend that Council appoints Mark Walsh and John Young as Independent Persons for three years from 1 May 2020 through to 1 May 2023.

10. Quarterly Performance Management Report (AI 10)

(TAKE IN REPORT)

Kelly Nash, Corporate Performance Manager, introduced the report which is part of a regular series of quarterly reports highlighting significant performance issues across the organisation.

Appendix 1 summarises directorate issues, Appendix 2a provides a summary of performance issues, Appendix 2b provides the performance issues in detail and Appendix 3 identifies projects.

During discussion

- Members asked for more detail in relation to the Care Quality Commission service ratings percentages on the first page of Appendix 2a.in relation to nursing homes, residential homes, domiciliary and community. They asked what was included in these assessments and why community was showing red. The Corporate Services Manager said she would find out and let the Committee know.
- Under the priority headed "encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live work and visit," members suggested that the success of the Enterprise Centres measured through occupancy levels should be taken to the relevant Cabinet Member. There appears to be great demand for small affordable work space in the right location so increased supply would be of value to the City. Kelly Nash said that she would pass this on.

The Chair thanked the Corporate Performance Manager for her report.

RESOLVED that the Committee

- (1) Noted the report in the revised format**
- (2) Agreed if any further action is required in response to performance issues highlighted**

11. Code of Conduct Report re Social Media (AI 11)

The City Solicitor introduced the report which gives members the opportunity to consider the proposed wording to add to the Employees' Code of Conduct in respect of an employee's use of social media set out in Appendix A. The background is included in section 3 of the report and the reasons for the recommendations are set out in section 4.

During discussion

- It was agreed that a report would be brought back to this Committee in a year's time to consider how the introduction of the new section has worked in practice
- The City Solicitor said that although no monitoring would take place, the wording gives clarity to employees and the employer about what is expected of them in this context. If the Code is not adhered to it could become a disciplinary matter.

RESOLVED that the Committee

- (1) Noted the importance of informing an employee about personal use of social media**
- (2) Supported the wording presented in Appendix A for inclusion in the Employees' Code of Conduct**
- (3) Agreed for the revisions to be recommended to Full Council.**

12. Gifts and Hospitality report (officers and members) (AI 12)

(TAKE IN REPORT)

The City Solicitor introduced the report advising that protocol requires an annual report on compliance to enable the Committee to recommend changes if they considered that to be necessary. Details of what can and cannot be accepted are detailed in section 4 of the report. Appendices 1 to 7 provide details of gifts received.

The City Solicitor confirmed that none of the declarations gave him cause for concern.

During discussion it was confirmed

- that the register was published on the Council's website
- that the period covered ran from October one year to October the next.

RESOLVED

- (1) That the Committee considered whether or not to make any recommendations for change**
- (2) That in the absence of any changes, the report was noted.**

13. Report on Complaints Received in connection with alleged Code of Conduct breaches (AI 13)

(TAKE IN REPORT)

The City Solicitor introduced the report advising that there had not been many complaints against members during the period covered. The complaints mainly related to social media and all but one had been dealt with at the Initial Filter Panel (IFP) stage.

RESOLVED that the Committee

- (1) Noted the report**
- (2) Considered whether any further action is required by them.**

14. Constitution Part 2 Section 5 (A, B and C). (AI 14)

(TAKE IN REPORT)

The City Solicitor introduced the report advising that there had been a good level of engagement from officers and that the purpose of the changes was to update the Constitution Part 2, Section 5 Chief Officers' Delegated Authority. He drew Members' attention to the main changes explaining that they are designed to accurately reflect the scheme of delegation following directorate restructures and also includes a new Shareholder Committee Protocol. Details of the proposed changes are shown in the appendices.

The Chair thanked the City Solicitor for the report.

RESOLVED that the Committee recommended to Council the proposed amendments to Part 2 Section 5 Chief Officers' Delegated Authority for adoption into the Council's constitution.

15. Proposed revision to Standing Order 32 - Referral of Motions to other bodies of the Council (AI 15)

(TAKE IN REPORT)

The City Solicitor introduced the report advising that this would remove the option of referring Notices of Motion to other Council bodies for subsequently reporting back to Council. Effectively this would mean that all Notices of Motion would be discussed.

RESOLVED that the Committee recommended to Full Council that all the wording after the first sentence in section d of Standing Order 32 be deleted leaving "Motions included in the agenda must be formally moved and seconded."

16. Data Security Breaches (AI 16)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report explaining that part of her role included being the Senior Information Risk Owner (SIRO). A regular report was brought to this Committee to advise of any ongoing breaches and to notify members of any new incidents. A summary of incidents is shown in Appendix A. For future reports, it was intended to change the format of the Appendix to show additional information for greater transparency. For example it was likely that the incidents would be recorded by directorate so that it would be clear if more incidents were reported in some directorates than others. This would help identify whether there were any underlying issues that needed intervention.

During discussion

- Members commented that the appendix showed that very few incidents were reported to the Information Commissioner's Office (ICO) and asked for more details on the process leading up to a decision on whether or not to report. The Chief Internal Auditor advised that the Information Governance team first assessed whether or not a breach had occurred by reference to various criteria. If in doubt, they would refer the incident to her for her decision on whether or not to report. Section 3 gave details of the Corporate Information Governance Panel meetings.
- It was confirmed that the ICO was content with how the City Council was operating. In relation to reported incidents, the ICO would request additional information if they needed it. The ICO was more concerned with being satisfied that a sound framework was in place to deal with any incidents.
- It was agreed that there was currently no comparison data year on year relating to data breaches and that this would be useful in future so that an assessment could be made as to whether things were improving or worsening. The Chief Internal Auditor would consider how this data could be provided.

RESOLVED that the Committee noted the breaches (by reference to Appendix A) that have arisen and the action determined by the Corporate Information Governance Panel (CIGP).

17. Whistleblowing Report (AI 17)

(TAKE IN REPORT)

The Chief Internal Auditor introduced the report explaining that Appendix A updated the Committee on the nature and handling of whistleblowing concerns for the period from January to December 2019. Appendix B showed minor amendments to the wording of the Policy to reflect personnel changes, for approval by the Committee.

There had been three investigations in 2019 as shown in Appendix A.

During discussion

- In response to a query about whether a whistleblower could be confident that their anonymity would be preserved, the Chief Internal Auditor said that historically PCC had a reasonably good track record in this regard. However if the incident became a police matter, anonymity could not then be guaranteed. If it became necessary to divulge the person's name, they would be told before disclosure was made and would be given as much support as possible.

RESOLVED that the Committee

- (1) Noted this report and the attached Appendix A and considered whether any further action is required**
- (2) Approved the changes to the whistleblowing policy (Appendix B) which has been amended following the departure of the previous City Solicitor and the Director of HR Legal and Performance.**

18. Exclusion of Press and Public (AI 18)

RESOLVED that under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the press and public be excluded for the consideration of the following items on the grounds that the appendices to the reports contain information defined as exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.

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

19. Audit Performance Status Report to 29 January 2020 (AI 19)

The Chief Internal Auditor introduced the report which updated the Committee on the Internal Audit Performance for 2019/20 to 29 January 2020 against the Annual Audit Plan, highlighted areas of concern and areas where assurance

can be given on the internal control framework. In addition the 2020/21 Annual Audit Plan was attached as Appendix C for committee approval.

Areas of concern are set out in section 5 of the Internal Audit Progress report attached as Appendix A.

Once the open part of the papers for this and the following item had been discussed, the Chair moved the meeting into exempt session. A brief explanation of the contents of the exempt appendix was given in exempt session. A further more detailed update would be provided at a future meeting.

The Chair thanked Internal Audit for their interesting and detailed report.

RESOLVED that the Committee

- (1) Noted the Audit Performance for 2019/20 to 29 January 2020**
- (2) Noted the highlighted areas of concern in relation to audits completed from the 2019/20 Audit Plan, including follow up work performed**
- (3) Endorsed the Audit Plan for 2020/21**

20. Procurement Management (information only) (AI 20)

(TAKE IN REPORT)

Greg Povey introduced the report which provided evidence to allow the Committee to evaluate the extent to which Portsmouth City Council is achieving value for money in its contracts for goods, services and works.

Section 1 provides details of compliance with Contract Procedure Rules. The target set by the Committee of greater than 95% conformance with contract procedure rules has been exceeded.

Section 2 shows waivers awarded this quarter.

Section 3 provides a breakdown by directorate of the actual spend during quarter 3 2019/20 on contracts which have waivers associated with them.

Section 4 shows spend by contract size.

Section 5 shows the Council's top ten suppliers.

Section 6 shows suppliers paid over £100,000 in Q3 by directorate.

Section 7 shows supplier performance.

Section 8 shows supplier performance monitoring.

During discussion

- Appendix 2 was referred to which showed that the reason for 4 waivers was reported as being "insufficient time." Members asked how it was determined that that was the case. Mr Povey explained that generally these situations tended to arise where there was a need to react to unforeseen circumstances - such as a directive from central government. In the case of the Berth 2 Boarding Bridge and Satellite reception concept engineering, a very tight timescale was necessary to meet technical requirements and customer demand. Detailed file notes were kept.

During exempt session members were given the opportunity to ask questions on the exempt appendices.

The Chair thanked Greg Povey, for his contributions to this Committee over several years and wished him every success in his new role in West Sussex.

The committee noted the information only report.

At the close of the meeting, the Chair noted that Councillors John Ferrett and Neill Young would not be standing for re-election at the May 2020 Local Elections. He expressed his thanks to them both for their valuable contributions to the Committee and wished them well for the future.

The meeting concluded at 5.45 pm.

Councillor Leo Madden
Chair

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Agenda Item 4



Portsmouth
CITY COUNCIL

Agenda item:

Decision maker: Cabinet
Governance Audit & Standards Committee (for information)

Subject: Financial Impact of Covid-19 Pandemic

Date of decision: 14 July 2020

Report by: Director of Finance & Resources (Section 151 Officer)

Wards affected: All

Key decision: No

**Budget & policy
framework decision:** No

1. Executive Summary

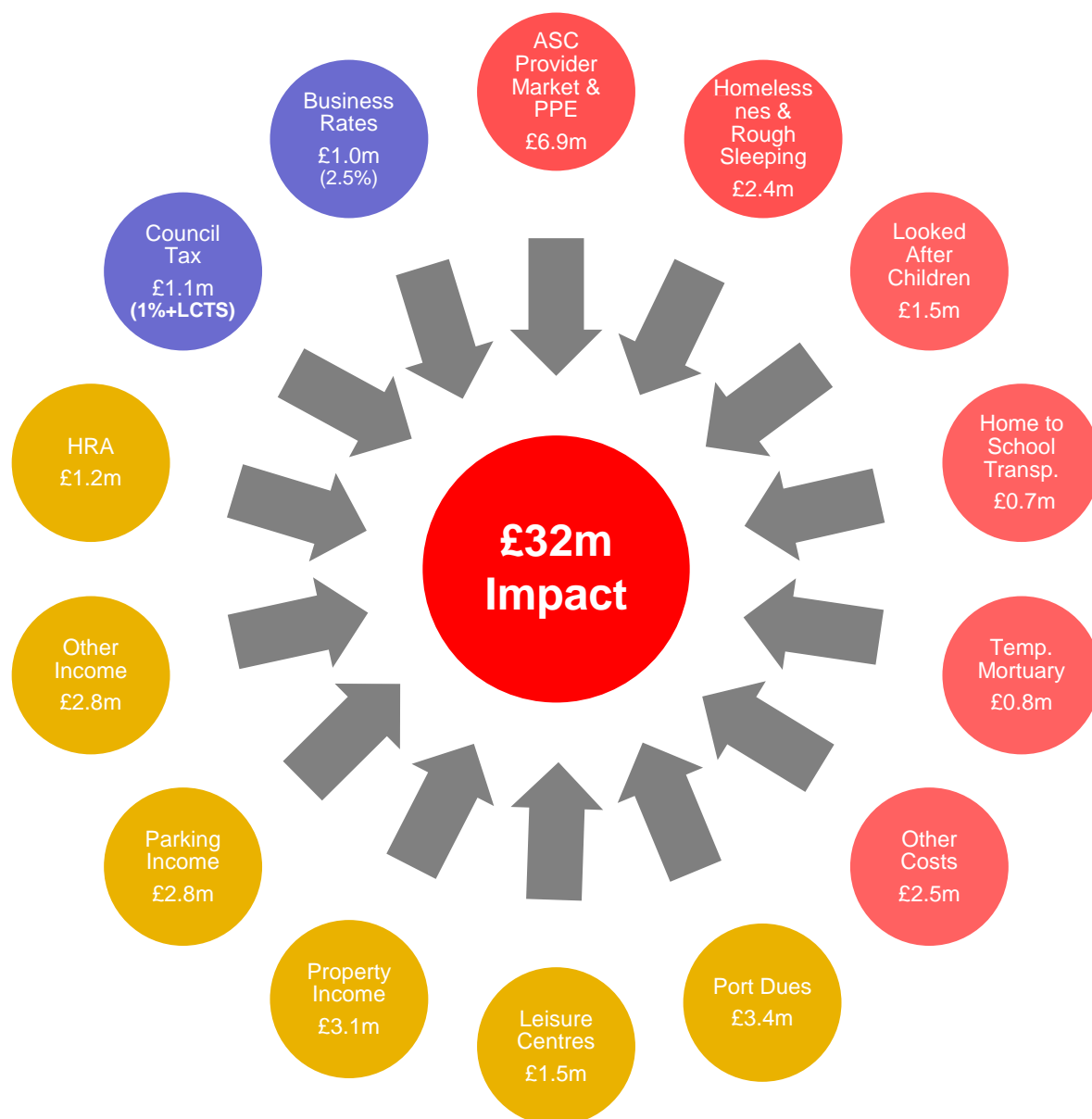
- 1.1 An Executive Summary of the financial implications arising from the direct impact of the Covid-19 pandemic including the cost of the response is set out below.

EXECUTIVE SUMMARY

- ❖ At the outset of the pandemic emergency, the Secretary of State gave a commitment that he would "give councils the resources they need to respond and I mean it"
- ❖ The forecast overall cost to the Council of the Covid-19 pandemic is currently £32m, to date Government have provided financial support of £12m leaving a forecast shortfall of £20m for the financial year 2020/21

EXECUTIVE SUMMARY (Cont'd)

- ❖ A summary of the £32m additional costs (red), income losses (gold) and funding reductions (purple) is illustrated below:



- ❖ On 2 July, the Secretary of State announced that a further funding package will be made available to Local Authorities, the details of this for Portsmouth have yet to be published and therefore the extent to which it will reduce the overall current shortfall is unknown.
- ❖ The forecast £20m shortfall remains uncertain and:
 - Will improve once the details of the new funding package are received
 - Could improve if the expected impact lessens
 - Could deteriorate if there is a second peak or the expected impact worsens
- ❖ To remain within the approved Budget parameters, a Deficit Recovery Strategy is proposed which includes a range of measures including earmarking funds from the Council's Corporate Contingency, MTRS Reserve and placing some Capital Spending plans "on hold"

2. Purpose of Report

2.1 The primary purpose of this report is to:

- ❖ Describe the overall forecast financial impact of the Covid -19 pandemic in 2020/21
- ❖ Explain the extent of the financial support that has been provided by the Council in response to the pandemic and the approach taken
- ❖ As a consequence of the Covid-19 pandemic, evaluate the financial resilience of the Council and its exposure to the prospect of the S.151 Officer issuing a Section 114 Notice
- ❖ Propose a financial strategy to remain within the Budget parameters approved by the City Council in February 2020

3. Recommendations

3.1 It is recommended that:

- 1) The financial strategy described in Section 8 of this report be approved
- 2) A further report be brought to a future meeting of the Cabinet to propose a detailed plan for placing certain Capital Spending plans "on hold" which will remain "on hold" until the overall financial impact on the Council is known with reasonable certainty
- 3) Note that the plan to place Capital Spending "on hold" is a plan only, and any cancellation of Capital Schemes would only be invoked in the event that the Council needs to respond to a forecast financial impact of the magnitude set out in this report.

4. Background

- 4.1 On 17 March 2020, the City Council invoked its Corporate Business Continuity Plan in response to the emergence of an accelerating infection rate of Covid-19. The Council moved to Business Critical Services only and its emergency response structure (Gold Command¹) was activated. All non-essential staff were sent home (although remaining available for work) and as many staff as possible that were engaged in business critical services were set up to work from home where it was practical and effective to do so. This action was designed to both protect staff and minimise the prospect of staff absence and thus causing the failure of business critical services.
- 4.2 By 23 March 2020, after a series of isolation steps to delay the spread of infection, lockdown measures had begun to be put in place nationally.

¹ Gold Command at PCC is the group responsible for making operational decisions in direct response to an emergency and comprises Senior Management across all of the Council's functions supported by Emergency Planning and attended by the Leader and Deputy Leader. It feeds into the wider Hampshire and Isle of Wight Local Resilience Forum.

5. The Council's Approach to Providing Financial Support

5.1 Even at the early stages of the Covid-19 pandemic, the Council was preparing for the significant financial impact that the emergency could have on the Council's financial position. Whilst the scale of the financial impact was uncertain, it had the potential to be substantial and de-stabilise the Council's financial resilience. In turn, this could place the ongoing delivery of the Council's business critical and essential services at risk. In readiness, the Council's Gold Command received and approved a report from the Council's Director of Finance & Resources (verbally on 06 April 2020 and formally on 09 April 2020) which proposed a targeted approach to any financial support arrangements to be applied across its activities as well as the accompanying financial governance regime to be adopted throughout the emergency period of the pandemic.

5.2 These arrangements are set out in brief below:

Types of Financial Support

Support available from the Council includes:

1. Cash Flow support - e.g. Changes to payment terms, Payment in Advance, Deferral of income due
2. Direct financial support e.g. Additional Payments, Grant or continuation of payments through disruption / suspension of service
3. Pass through of Government Provided Support - e.g. Business Rate Reliefs, Business Grants and Council Tax Support.

General Principles for Financial Support

1. *Provider of last resort*

Given the extent of the uncertainty surrounding the Council's financial position and that some financial impacts felt locally would be of such significance that it would be beyond the means for the Council to respond adequately, the Council should adopt a "Provider of Last Resort" approach, ensuring the following:

- a. All Government support has been exhausted
- b. Bank support has been exhausted
- c. Parent / Shareholder support has been exhausted
- d. Organisation's own Balance Sheet strength is not sufficient.

2. *A Proportionate approach targeted towards greatest need*

The following approach is adopted in order to ensure that the Council's limited financial support is targeted to need and to eliminate, as far as possible, any profiteering at the expense of need.

- a. Case by Case approach (no "blanket" approaches) - every organisation / individual is affected in a different way and has different levels of financial support available to them.

3. Transparency - Individuals / Organisations must demonstrate that they are at risk / in need

To demonstrate need, the following information (where available) is required to operate on a transparent basis. These will be indicators of risk / need and future viability:

- a. Cash flow
- b. Balance Sheet
- c. Other evidence
- d. Declarations and accounts available for inspection.

4. Reasonable prospects of future viability (see above also)

If it is clear that an organisation will not survive this emergency period even with an appropriate level of financial support from the Council, it would be a waste of valuable resources that could be directed elsewhere. Support in these circumstances should only be considered if crucial short-term goods / services are required to deal with the Emergency.

Indicators to test future viability are described above.

5. Maximising the impact of the Council's Financial Support

- a. A staged approach with periodic reviews so that any support can be flexed upwards or downwards according to current and emerging circumstances - this will limit risk of allocating too much or too little, provide the opportunity for other support measures to take effect and enable a flexible response
- b. Where appropriate, a rationed or negotiated level of support or payment for service to ensure any emergency funding is "stretched" as far as possible across as many vulnerable areas as possible
- c. Where appropriate, getting the best deal in terms of price to enable, overall, the Council's financial support to "stretch" further.

6. Other Support

- a. Guidance and signposting to national financial support schemes
- b. Lobbying on behalf of businesses and individuals through:
 - i) Formal structures to Central Government (e.g. LRF, LEPs, Government Departmental Forums / Contacts)
 - ii) Councillors and MPs
 - iii) Associations (e.g. LGA, SOLACE, ADASS, ADCS, SIGOMA, Professional Bodies).

6. Government Funding & Priorities for Financial Support

- 6.1 The government announced its first tranche of Emergency Funding for Councils of £1.6bn on 24 March 2020 and a further tranche of £1.6bn on 18 April 2020. Portsmouth City Council's share of this, in total, amounts to £12m. On 2 July 2020 Government issued a further statement that they would be providing "further measures as part of a comprehensive package of support for local authorities". Headline national allocations and principles have been released but the details of this for councils individually have not and therefore are not yet factored into the Council's forecasts.
- 6.2 Across all communications from Ministers, they have signalled that Councils should prioritise the following service areas throughout the emergency:
- ❖ Adult Social Care
 - ❖ Children's Services
 - ❖ Public Health Services
 - ❖ Fire and Rescue Services
 - ❖ Waste Collection Services
 - ❖ Shielding the clinically extremely vulnerable
 - ❖ Homelessness and rough sleeping
 - ❖ Domestic Abuse
 - ❖ Supporting the NHS
 - ❖ Managing excess deaths
 - ❖ Support for re-opening the country
- 6.3 Until the announcement of this further funding package on 2 July, Government had made far less mention of the other financial impacts on Councils such as losses of income and reductions in funding from Council Tax and Business Rates, which together have a greater financial impact on the Council than the additional costs referenced by Government (listed above).
- 6.4 Set against the £12m of Emergency Funding from Government are forecast additional costs plus reductions in income and funding amounting to £32m (see Executive Summary chart), leaving an overall forecast shortfall of £20m. This is discussed in further detail in Section 8 of this report.
- 6.5 The extent to which the latest funding announcement will contribute towards the current £20m shortfall is, at this stage, unclear and it remains unclear whether or not there will be further funding allocated from Central Government to help meet any remaining shortfall. The Secretary of State however, has made it clear that Councils should not expect Government to meet all shortfalls that they experience, especially for spending that is not explicitly in alignment with the Government's policy and guidance relating to the Emergency. By way of example, the Secretary of State and Ministers have written to Councils stating the following:

"This is both a local and a national challenge and it is vital that we work together to use available resources as wisely as possible. This might include redeploying staff or bringing in volunteers, or prudent use of financial reserves"

Robert Jenrick 30 April 2020

"We wouldn't want anybody to labour under a false impression that what they are doing will be guaranteed funded by central government"

Robert Jenrick 05 May 2020

"But as you can imagine it is only fair that central government supports things that are open to all rather than individual choices by local councils."

Robert Jenrick 05 May 2020

"The package we are delivering is designed to help councils through the coming months and, whilst there will be some shared financial pain, it continues to meet our commitment to stand with local government as it delivers vital support for our communities during the pandemic"

Simon Clarke 02 July 2020

7. Council Response and Overall Financial Impact

7.1 In response to the pandemic, the Council has provided a wide range of financial support across services to residents, businesses, the voluntary sector, commercial tenants, contract providers and suppliers generally. Some of the more significant elements of support include:

- External Care Homes - funding of additional staffing, additional care packages, guaranteeing income levels and PPE
- Hotel accommodation for the homeless
- Funded food deliveries for the vulnerable (via the HIVE)
- Flexible payment terms for Council Tax Payers
- Flexible payment terms for Business Rate Payers
- Free use of car parks and removed enforcement to enable key workers to park close to their homes
- Road closures to improve social distancing
- Financial relief for the City's Leisure Centres provider
- Contributions to the cost of temporary mortuary facilities
- Pitch relief for market traders
- Rent deferral scheme for commercial tenants
- Flexible payment terms for Brittany Ferries
- Flexible contracting arrangements with key suppliers
- Supporting Community Centres to submit furlough claims

7.2 The Council has been mindful to balance its own financial resilience in order to underpin the delivery of critical and essential services with the emergency needs of the residents and

businesses of the City. The Council has taken a responsible approach to meeting emergency spending for the direct costs associated with the emergency such as providing financial support to the Adult Social Care provider market, procuring necessary Personal Protective Equipment (PPE) and providing accommodation for the homeless and rough sleepers whilst also seeking to ensure that any financial support for residents, suppliers and external organisations is provided on a case by case basis with demonstration of need. The Council has also been careful to observe the guidance received from the Cabinet Office in relation to Public Procurement Notices in its dealings with suppliers and the flexibility that the Council has offered. In this way the Council has maintained an approach to target limited financial resources to those at risk and in most need.

- 7.3 Nevertheless, the financial position as a consequence of this Emergency is serious. Following two tranches of Emergency Government funding totalling £12m, the Council still has a forecast financial shortfall of £20m across both General Fund and Housing Revenue Account activities as described below:

| Description | £m |
|--|-----------|
| Additional Costs | 12 |
| Unachievable Budget Savings | 3 |
| Income Losses (e.g. Rents, Fees and Charges) | 15 |
| Funding Losses (i.e. Council Tax and Business Rates) | 2 |
| Sub-Total Impact | 32 |
| Less: Emergency COVID-19 Funding | (12)* |
| Total Shortfall | 20 |

*Excludes the 3rd Tranche of Funding announced on 2 July 2020, which is as yet unknown.

- 7.4 As described above, the major financial impact of the emergency has been driven by the additional costs and the loss of income. Crucially, the forecast £20m shortfall follows the Government's current stated planning assumptions and with no second wave.
- 7.5 A more detailed breakdown of the overall additional costs (red), income losses (gold) and funding reductions (purple) was described previously in the Executive Summary.
- 7.6 An overall financial impact is forecast at £20m is significantly beyond the approved budget. Due to the level of uncertainty associated with this forecast, which will depend substantially on both the depth of the forthcoming recession and the level of any further Government funding, an emergency budget at this stage would be premature.
- 7.7 The Council, however, has an obligation to plan its financial management responsibly and is required to formulate a robust financial strategy to be able to deal with the potential shortfall should it arise. Without such a strategy, the S.151 Officer would need to consider if a Section 114 Notice to the Council should be issued or at least make recommendations for an Emergency Budget to be considered by Full Council.
- 7.8 A Section 114 Notice refers to Section 114 of the Local Government Finance Act 1988. It has been described as the bankruptcy process for Local Authorities. The process is governed under legislation and involves the S.151 Officer issuing a report to Full Council setting out the financial position of the Council, that it is failing in its responsibility to maintain a Balanced Budget and that the Council is being given 21 days' notice to consider a response. However, during that time spending and other financial activity is suspended. Maintaining a Balanced

Budget effectively means not drawing on the Council's Reserves to the extent that General Reserves would fall below the minimum level of £8.0m.

- 7.9 The Chief Financial Officer (CFO) must explore all avenues before issuing a Section 114 Notice but should issue a notice where necessary. The Chartered Institute of Public Finance & Accountancy (CIPFA) has recently issued guidance to S.151 Officers which proposes that there should be a temporary modification to existing guidance in order to create an opportunity, within existing statutory limits, to enable an exploration of what further options and/or financial assistance may be available.

The proposed modifications are as follows:

- At the earliest possible stage a CFO should make informal confidential contact with MHCLG to advise of financial concerns and a possible forthcoming Section 114 requirement
- The CFO should communicate the potential unbalanced budget position due to Covid-19 to MHCLG at the same time as providing a potential Section 114 scenario report to the Council's Executive (Cabinet) and the external auditor

In practice, this means it should not normally be necessary for a Section 114 report to be issued while discussions with the Government that would address the issue are in progress.

8. Financial Resilience and Financial Strategy

- 8.1 The Council is not allowed to either set (or maintain) a deficit budget or to draw upon its General Reserves to the extent that they fall below the minimum level of £8m. Over the period of the Council's Medium Term Financial Strategy, the level of headroom above the minimum level of reserves that would be available to mitigate against all financial risks over the period is £9.3m, however this is predicated on the Council making cumulative budget savings of £6m over that period in accordance with its approved Medium Term Financial Strategy.
- 8.2 Given the forecast deficit of £20m compared with available General Reserves of £9.3m, (or just £3.3m if the Council's budget savings are not met), the Council is currently operating significantly outside of the Budget parameters set by Full Council.
- 8.3 Adopting a Deficit Recovery Strategy will enable the Council to continue to operate without the need to consider either an Emergency Budget or, if necessary, emergency spending controls and service reductions under a Section 114 Notice. Once adopted, the strategy will need to be developed into a more detailed plan shortly after, identifying savings amounting to £20m. The strategy itself (described below) identifies a contribution of £10m from Reserves and Contingencies leaving a remaining balance of £10m to be found by placing previously approved spending decisions "on hold" until such time as the overall financial position becomes clearer and therefore whether those capital spending plans can proceed or actually need to be deleted. The proposed strategy will involve the following:
- Earmarking £5m of the Council's Corporate Contingency - leaving a residual £5m for all other known and unknown financial risks that may arise during the year
 - Earmarking £5m of the MTRS Reserve which currently holds an uncommitted balance of £8m - leaving just £3m only to fund future Spend to Save schemes and any costs of redundancies that may be required

- Identifying the remaining sum (currently estimated at £10m) of Capital Schemes that have been funded by Revenue and placing those Capital Schemes "on hold"

8.4 A further report will be considered by the Cabinet to determine those Capital Schemes to place "on hold". Once the overall financial position is known with more certainty and should that plan need to be invoked, it may require an "In Year" revision to the approved Budget to be proposed by the Cabinet and considered by Full Council.

8.5 Whilst at the time of writing, the financial impact to the Council of the latest funding announcement of 2 July 2020 is unknown, assuming all other assumptions remain intact, the Council's £20m shortfall will reduce. The extent of any improvement is not yet known.

8.6 The funding package from Government includes the following:

- *An additional non-ringfenced national grant allocation of £500m*

To date the Council has received £12m from a national allocation of £3.2bn. £500m represents a further 15% on top of the current £3.2bn allocation. The Government has indicated that the distribution methodology for this latest £500m will not be the same as the previous distribution methodologies.

- *Non Tax Income Scheme*

Some re-imbursement for irrecoverable income losses (£15m for PCC) but only from some of the affected income streams

- *Irrecoverable Tax Losses*

Government have stated that they will consider the issue of irrecoverable Council Tax and Business Rates (£2m for PCC) as part of the forthcoming Spending Review.

9. Other Financial Support Provided Directly by Central Government

9.1 Outside of the £12m provided to the City Council (from the £3.2bn national sum) to deal with the immediate more general impacts of the Covid-19 pandemic, Central Government has provided additional funding / financial support on a more targeted basis to particular sectors. Some of this funding has been channelled through Local Authorities to distribute whilst other funding has been allocated direct.

Local Authority Administered Funding

9.2 Funding administered by the City Council is summarised below:

- ❖ Council Tax - A £1.9m allocation from the National Hardship Relief Fund - this has provided the 8,500 households in Portsmouth in receipt of Local Council Tax Support with a further £150 reduction in their Council Tax bill.
- ❖ Business Rate Relief - £46m Business Rate Relief. This provides 1,609 businesses in the Retail, Hospitality and Leisure sectors with 100% reduction in their Business Rates for 2020/21.
- ❖ Business Rate Relief - £0.4m Business Rate Relief. This provides 34 Nurseries in the City with a 100% reduction in their Business Rates for 2020/21.

- ❖ Small Business Grants - £21.7m to provide 2,178 Small Businesses with a £10,000 grant.
- ❖ Retail Hospitality & Leisure Grant - £17.9m to provide 967 businesses in the Retail, Hospitality and Leisure sectors with a grant of either £10,000 or £25,000 depending on the size of their property.
- ❖ Discretionary Grant Fund - £1.9m to provide grant funding of up to £10,000 (and exceptionally £25,000) for small businesses that "fell through the cracks" of the grant schemes for the Small Business Grants and Retail, Hospitality and Leisure Grants.
- ❖ Rough Sleeping Grant - £19,000 to support rough sleepers or those at risk of rough sleeping to self-isolate and prevent the spread of Covid-19.
- ❖ Emergency Accommodation and Rough Sleepers - £105 million to help local authorities implement a range of support interventions for people placed into emergency accommodation during the COVID-19 pandemic. This includes supporting moves into the private rented sector, helping individuals to reconnect with friends or family, and extending or procuring interim accommodation.
- ❖ Infection Control Fund - £1.5m to support adult social care providers, including those with whom the Local Authority does not have a contract, to reduce the rate of Covid-19 transmission in and between care homes and support wider workforce resilience.
- ❖ Test and Trace service - £1.6m to develop tailored outbreak control plans, working with local NHS and other stakeholders to reduce the spread of the virus in their area.
- ❖ Re-opening High Streets Safely - £191,000 to support a range of practical safety measures including new signs, street markings and temporary barriers.
- ❖ Emergency Active Travel Fund - £961,000 (indicative allocation) to protect and increase transport services, level up infrastructure and regenerate local economies after the coronavirus (Covid-19) outbreak. To allow people to travel to hospitals, supermarkets or their place of work, to get to their destination safely and quickly, while helping ensure there is enough space for them to observe social distancing guidelines.

10. Conclusion

- 10.1 In total over £27bn of funding has been provided by Government both directly and indirectly to Local Authority areas to support the Covid-19 pandemic response. Nevertheless, the City Council is facing a forecast financial shortfall of some £20m after all government funding received to date has been taken into account.
- 10.2 Whilst the £20m financial shortfall may reduce, it is still expected that the residual shortfall will be a serious cause for concern for the Council and, if realised may require the Council to consider a revision to its Budget during the year. Given the level of uncertainty attached to this forecast, it is premature to consider revising the Budget at this stage. The Council does, however, have an obligation to plan responsibly in order to protect the financial resilience of the Council which underpins the continued delivery of its critical and essential services throughout this pandemic.

- 10.3 The financial strategy contained in Section 8 of this report identifies the measures that need to take place to meet the Council's obligations for the prudent management of the Council's financial affairs, and enables the Council to continue to operate under the normal budget management framework until such time as the overall financial position is known with greater certainty.

11. Integrated Impact Assessment (EIA)

- 11.1 An integrated impact assessment is not required at this time since no spending decisions are being proposed as part of the proposed strategy.

12. City Solicitor's Comments

- 12.1 The Council has a legal responsibility to set and maintain a "Balanced Budget" and the Cabinet has a responsibility to deliver its services within the Budget approved by Full Council. The Cabinet has authority to approve the recommendations made in this report.

13. S.151 Officer's Comments

- 13.1 All of the financial information is reflected in the body of the report.

.....
Signed by: Section 151 Officer

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 |
|-----------------------------------|---|
| Various Government communications | Office of Director of Finance & Resources |

The recommendation(s) set out above were approved / approved as amended / deferred / rejected by the Cabinet on 14 July 2020.

.....
Signed by: Leader of Portsmouth City Council

Agenda Item 5



Portsmouth
CITY COUNCIL

Title of meeting: Governance and Audit and Standards Committee

Date of meeting: 24th July 2020

Subject: Annual Governance Statement

Report by: Kelly Nash, Corporate Performance Manager

Wards affected: n/a

Key decision: No

Full Council decision: No

1. Purpose of report

- 1.1 The report seeks approval from the Governance and Audit and Standards Committee for the council's draft Annual Governance Statement (AGS) for 2019/20.

2. Recommendations

- 2.1 The Governance and Audit and Standards Committee are asked to:
- 1) Agree the Annual Governance Statement 2019/20 (Appendix 1)

3. Background

- 3.1 The authority has a duty to produce and publish an Annual Governance Statement (AGS). This sets out how Portsmouth City Council has complied with the Local Code of Governance, and how the authority meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011.
- 3.2 The purpose of the AGS is to set out the systems and processes in place to ensure that Council business is conducted lawfully and in accordance with proper standards. Compliance helps ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It also acknowledges the Council's responsibility to secure continuous improvement in the way in which its functions are exercised by outlining significant governance issues facing the organisation, and setting out how these will be addressed.
- 3.3 It is a key role of the Governance and Audit committee to monitor governance issues across the authority and ensure they are performance managed. The Governance and Audit and Standards Committee receive regular updates on the development of the Annual Governance Statement. Governance issues are also reviewed regularly by the Corporate Governance Group which is attended by the

Chief Executive, the Monitoring Officer, Director of Finance and Resources, Director of Corporate Resources and the Chief Internal Auditor.

- 3.4 The AGS reports against seven core principles of governance set out in the International Framework for Good Governance in the Public Sector. The document is attached as Appendix 1. The detail of how the organisation addresses these principles is set out in the Local Code of Governance, which was refreshed and approved by Governance and Audit and Standards Committee in 2019. Every year, a number of sources are analysed, including the Annual Audit Letter, in order to review the council's practices and highlight further governance issues where the authority may be exposed.
- 3.5 For 2019/2020, the Annual Governance Statement also notes that the Covid-19 pandemic response had started and that this response and wider recovery will have significant implications for the governance of the organisation, including changes to process, exceptional use of resources and reduced assurance. It is highlighted that these issues will be significant for the 2020/21 year, although the full implications are not yet known.
- 3.6 The Annual Governance Statement also includes the annual opinion on the effectiveness of the internal system of control from the Chief Internal Auditor.
- 3.7 Due to the pandemic, the timetables for agreement of accounts and finalisation of the AGS have been extended. However, it is unlikely that the content of this document will change significantly before final submission, and therefore it is timely for the Governance and Audit and Standards Committee to consider the report and comment at this stage.

4. Reasons for recommendations

- 4.1 The 2019/20 Annual Governance Statement has been prepared according to the proper practice framework - Delivering Good Governance in Local Government issued jointly by SOLACE (Society of Local Authority Chief Executives and Senior Managers) and CIPFA (Chartered Institute of Public Finance and Accountancy) in 2016.

5. Integrated impact assessment

- 5.1 An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

6. Legal implications

- 6.1 Legal considerations have been taken into account in the preparation of this report and where appropriate embodied within it.

7. Director of Finance's comments

7.1 There are no financial implications arising from the recommendations in this report.

.....
Signed by: David Williams, Chief Executive

Appendices:

Appendix 1 - Annual Governance Statement 2019/20

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 |
|-------------------|----------|
| | |
| | |

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....
Signed by:

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DRAFT Annual Governance Statement 2019-20

www.portsmouth.gov.uk

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What is the annual governance statement?

Legislation¹ requires local authorities to prepare and publish an Annual Governance Statement, in order to report publically on the effectiveness of the Council's governance arrangements. The statement provides an overview of the current governance framework and a summary of the review on the effectiveness of Portsmouth City Council's governance framework for 2019/20 (which coincides with the annual statement of accounts). The statement openly communicates significant governance issues that have been identified during the review and sets out how the authority will secure continuous improvement in these areas during over the coming year.

What do we mean by governance?

By governance, we mean the arrangements that are put in place to ensure the intended outcomes for local people are defined and achieved. It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled. Good governance is about making sure the Council does the right things, in the right way for the right people, in a timely inclusive, open, honest and accountable manner.

Scope of responsibility

Portsmouth City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Portsmouth City Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

About the Council

Portsmouth's Council comprises of 42 Councillors who represent 14 wards across the City. It currently operates a minority administration under a Leader and Cabinet structure with Cabinet Members responsible for individual portfolios.

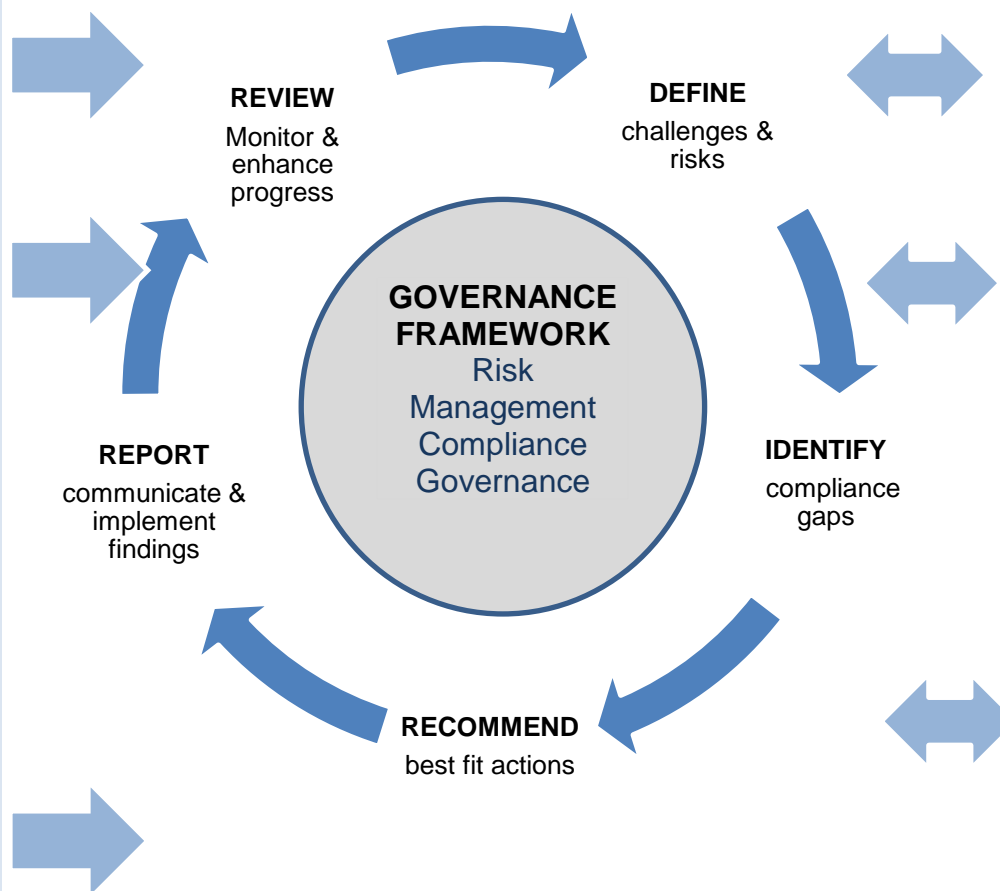
The Council employs around 3,600 members of staff and provides an extensive range of services to residents, businesses and visitors in the City, including: city development and cultural services, regulatory business and standards services, transport and environmental services, housing and property services, children's and adult's social care and safeguarding, education services, revenues and benefits and health and welfare services.

The staff of the council are managed by the **Chief Executive**, David Williams, who is the Head of the Paid Service. The Chief Executive is supported **directors** who have oversight of a number of services, each of which deals with a broad portfolio of the functions of the authority.

¹ Accounts and Audit (England) Regulations 2011, regulation 4(3)

GOVERNANCE PRINCIPLES

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through internal control and strong public financial management
- Implementing good practices in transparency, reporting and audit to deliver effective accountability



INTERNAL CONTROLS

Leadership, Culture and Planning

Organisational goals and priorities
Strategic and operational plans
Performance management
Medium term financial strategy

Statutory Officers & Decision Making

The Constitution
The Monitoring Officer
Section 151 Officer

Policies & Procedures

Codes of conduct
Ways of working
Anti-fraud, Bribery and Corruption Policy
Whistleblowing Policy
HR Policies and procedures

People, Knowledge, Finance, Assets

Robust HR practices
Information governance
Performance monitoring and improvement
Financial management and reporting
Ethical & legal practices

Scrutiny and Transparency

Freedom of Information requests
Complaints procedure
Reports considered by legal and finance experts
Equality impact assessments
Corporate risk directory
Transparency duty publication

Partnership Working

Community engagement statement
'Have your say'
Consultations
Terms of reference for partnerships

CIPFA/SOLACE Good governance principles and the local code of governance

In 2016 CIPFA/SOLACE issued revised best practice guidance for 'Delivering Good Governance in Local Government'². The framework sets out seven principles that should underpin the governance of each Local Authority. The following sections look at how the Council is held to account for these seven principles.

A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

The Constitution

The constitution³ sets out the how the Council operates; the roles and responsibilities of members, officers and the scrutiny and review functions; how decisions are made; and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Although there is no longer a statutory requirement, Portsmouth City Council has taken the decision to continue with this arrangement internally and is in the process of updating the constitution to ensure it reflects current practice. As well as working together as a single organisation, it is important that members and officers continue improve their working relations with other organisations too, both locally and sub-nationally, to achieve a common purpose of improved efficiency and effectiveness.

The Monitoring Officer

The Monitoring Officer is a statutory function and ensures that the Council, its officers, and its elected members, maintain the highest standards of conduct in all they do. The Monitoring Officer is assisted when required by appointed deputies. The Monitoring Officer ensures that the Council is compliant with laws and regulations, as well as internal policies and procedures, and is also responsible for matters relating to the conduct of Councillors and Officers, and for monitoring and reviewing the operation of the Council's Constitution. In PCC, the monitoring officer is Peter Baulf, the City Solicitor and Head of Legal Services.

Section 151 Officer

Whilst all Council Members and Officers have a general financial responsibility, the s151 of the Local Government Act 1972 specifies that one Officer in particular must be responsible for the financial administration of the organisation and that this Officer must be CCAB qualified. This is typically the highest ranking qualified finance officer and in Portsmouth City Council this is Chris Ward, who is also the Director of Finance and Resources.

Codes of conduct

On joining the Council, members and officers are provided with a contract outlining the terms and conditions of their appointment. All staff must sign a code of conduct and declare any financial interests, gifts or hospitality on a public register. Additionally, members are expected to declare any interests at the start of every meeting that they attend in accordance with Standing Orders. Members and officers are required to comply with approved policies. The Council uses a system called Policyhub that enables effective dissemination of general and job-specific policies, and has the built in functionality to measure compliance i.e. that a member of staff has read and agreed to the policy.

² <http://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework>

³ A copy of the constitution can be found at <https://www.portsmouth.gov.uk/ext/the-council/policies-and-strategies/constitution.aspx>

Anti-fraud, bribery and corruption

The Council is committed to protecting any funds and property to which it has been entrusted and expects the highest standards of conduct from Members and Officers regarding the administration of financial affairs. The Council's Anti-Fraud, Bribery and Corruption Policy⁴ (revised in May 2016) conforms to legislative requirements and sets out steps to minimise the risk of fraud, bribery, corruption and dishonesty and procedures for dealing with actual or expected fraud.

Whistleblowing

The Council is committed to achieving the highest possible standards of openness and accountability in all of its practices. The Council's Whistleblowing policy⁵ sets out the options and associated procedures for Council staff to raise concerns about potentially illegal, unethical or immoral practice and summarises expectations around handling the matter. The Policy is kept under review by the Monitoring Officer, and reports (which include concerns raised and their outcomes) are submitted to the Governance and Audit and Standards Committee quarterly.

Governance and Audit and Standards Committee

As its name suggests, the Governance, and Audit and Standards Committee has the responsibility for receiving many reports that deal with issues that are key to good governance. The Committee undertakes the core functions of an Audit Committee identified in CIPFA's practical guidance⁶. The group has an agreed set of terms of reference⁷, which sets out their roles and responsibilities of its members⁸. On an annual basis the Chair of the Committee is invited to undertake a self-assessment, which informs the overall review of effectiveness of the Council's governance arrangements.

B. Ensuring openness and comprehensive stakeholder engagement

Engagement and communication

It is recognised that people need information about what decisions are being taken locally, and how public money is being spent in order to hold the council to account for the services they provide. The views of customers are at the heart of the council's service delivery arrangements. Portsmouth City Council has developed a Community Engagement Statement, which reflects the council's ambition to enable and empower communities to shape the places within which they live and work, influence formal decision making and make informed choices around the services they receive. The Community Engagement Statement asserts the following objectives for the council's engagement activity:

- Active citizens and strong communities,
- Clearer links between consultation and decision-making,
- A City that reflects its diversity and improved use of resources and aims to build upon the council's commitment to finding ways to inform,
- Consult and involve local people in all areas of life.

⁵ A copy of the whistleblowing policy can be located at :

<http://democracy.portsmouth.gov.uk/Data/Governance%20&%20Audit%20&%20Standards%20Committee/20130314/Agenda/GAS20130314r10.pdf>

⁶ A copy of the guidance can be found at: <http://www.cipfa.org/Policy-and-Guidance/Publications/A/Audit-Committees--Practical-Guidance-for-Local-Authorities>

⁷ The Governance and Audit and Standards Committee Terms of Reference can be found at: <http://www.portsmouth.gov.uk/media/SC20120716r5app4.pdf>

⁸ Membership can be found at: <http://democracy.portsmouth.gov.uk/mgCommitteeDetails.aspx?ID=148>

To be effective this process aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. There are a number of ways people can get involved and connect with the council, many of which are listed on the council webpage⁹. Local people have the option to engage in a dialogue through: social media sites (including Facebook and twitter), petition schemes, neighbourhood forums, Healthwatch Portsmouth, council meetings (open to the public), their local Councillor¹⁰.

Consultations

The council keeps a forward plan of planned consultations. Internally, a consultation toolkit has been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness, consultations are proactively promoted.

The council issues a free copy of their Flagship magazine to all households keeping them up to date about what's going on in the City. The authority also issues other publications to specific groups, including "Term Times" for schools and "HouseTalk" for tenants.

Portsmouth City Council regularly engages with its employees to ensure they are kept informed about the council and the city. There are communication channels for "off-line" and online employees and a dedicated communications point of contact for staff. Employees are regularly asked to complete opinion surveys so the council can get a better understanding of what's working and what's not. The results are carefully considered and used to address issues.

Complaints

There is a clear and transparent procedure¹¹ for dealing with complaints. The Council operates a three-stage complaints procedure and promises to acknowledge complaints within 5 working days and respond fully within 10 working days for first-stage complaints, 15 working days for second-stage complaints and 20 working days for third-stage complaints. If complainants remain dissatisfied they have the right to refer the matter to the Local Government Ombudsman.

Partnership working

Partnerships are about the council coming together with right organisations to deliver improved outcomes for local people. The city has excellent partnership working, with other local authorities and with colleagues in health, including the Clinical Commissioning Group (CCG), the police, probation, fire service, university and with business.

For many years, we have had three key theme-based strategic partnerships - the **Health and Wellbeing Board**, **Children's Trust**, and the **Safer Portsmouth Partnership**. These partnerships were reviewed in 2019 and folded into a single Health and Wellbeing Board with a broadened remit and membership, to improve efficiency and ensure that issues are being considered strategically and as they affect people and the city across all dimensions.

This arrangement will also support the increased joining-up of with partnership organisations at the commissioning and delivery levels. This includes multi-agency teams for children and families, and locality teams to deliver Better Care, as well as the development of a partnership for delivering the Healthy Child Programme in the city. A range of mechanisms are used to support these arrangements.

⁹ Opportunities to have your say can be found at: <https://www.portsmouth.gov.uk/ext/community-and-environment/community/have-your-say.aspx>

¹⁰ Who are your Councillors, MPs and MEPs: <http://democracy.portsmouth.gov.uk/mgMemberIndex.aspx?bcr=1>

¹¹ Complaints procedure: <https://www.portsmouth.gov.uk/ext/the-council/transparency/comment-compliment-or-complaint.aspx>

There are other partnership arrangements around the city's regeneration efforts such as the **Solent Local Enterprise Partnership (LEP)**, Transport for South Hampshire and the Isle of Wight, the Partnership for South Hampshire (PfSH) and the business leaders group, Shaping the Future of Portsmouth.

The Covid-19 pandemic has meant that the local authority has had to look at different ways to conduct its business and relationships with residents and partners, including moving towards virtual meetings carried out through remote access. In some cases, this will lead to streamlined processes but in others, it may be that there are risks that some people are excluded from processes, for example, by not having ready access to technology that allows them to participate. Considering these implications and learning from the new ways of working will be an important part of the recovery process for the city council and its partners.

C. Defining outcomes in terms of sustainable economic, social and environmental benefits; and D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Organisational goal and aspirations for the City



Portsmouth City Council; working together to shape the great waterfront city

Portsmouth City Council has a shared organisational goal (above), which is designed to be simple, reflecting the fact that although we are a diverse organisation, everything the council does is designed to make the city a better place and improve life for our residents. All of us are working together to shape Portsmouth, a great waterfront city that:

- Has a **sustainable economy** that delivers **regeneration** and **inward investment**, creates opportunities and **drives prosperity** for our residents
- Has **high quality homes**
- Is a **great place to live** that makes best use of our natural assets and supports a **vibrant and diverse culture**
- Offers **excellent education** and training so all our residents can achieve their full potential and businesses have the skills to grow
- **Protects and supports vulnerable residents**, encourages independence and enables them to achieve their full potential
- Keeps residents **healthy** and the city **safe**.

We have set clear priorities about the way we will work and what we be trying to achieve. We will:

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

In order to secure these outcomes for residents and service users, the Council needs to respond to some tough challenges. The Council has been required to make £102m in savings and efficiencies over the past 9 years (48% of controllable spend) in order to balance the Budget, ensuring that spending remains in line with income and funding levels.

For the period 2020/21 to 2022/23, the expectation is that forecast savings of £7.5m will be required, with the driving force for this reductions in Government funding.

Adults and Children's Social Care represent 53% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures and have historically received significant protection from savings - resulting in proportionally higher savings across other Council Services. The Local Government Finance Settlement has provided substantial relief for the cost pressures in Adults and Children's Social Care in 2020/21 of £5.4m, but is not clear if this is new money to the Local Government system in the longer term and remains a risk going forward.

Medium Term Financial Strategy

The Council's Medium Term Financial Strategy (MTFS) has been developed to respond to these very challenging circumstances. The strategy has a renewed 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.

The overall aim of the strategy is to ensure that "in year" expenditure matches "in year" income over the medium term whilst continuing the drive towards regeneration of the city, being innovative, creative and protecting the most important and valued services. There are four strands to the strategy:

- **1 - Transforming to an innovative and creative Council:** income generation; regeneration and meeting housing need; strategic use of property and assets; investment for commercial gain; developing and establish commercial entities to sell services profitably; capital investment for jobs and business growth (increased business rates); establishing strategic partnerships and shared service arrangements to reduce costs and increase resilience.
- **2 - Reduce the extent to which the population needs Council services:** re-direction of resources towards preventative services; design fees and charges policies to distinguish between want and need; capital investment towards jobs and skills to raise prosperity
- **3 - Increase the efficiency and effectiveness of the council's activity:** contract reviews; rationalisation of operational buildings; support to the voluntary sector; targeted efficiency reviews in resource hungry services; capital investment for on-going savings or costs avoidance
- **4 - Withdraw or offer minimal provision of low impact services:** strong focus on needs, priorities and outcomes; use the insights of councillors to inform priorities; use the results of public consultation to inform priorities.

The Council has a comprehensive supporting financial framework in place designed to avoid any financial obstacles to delivering the MTFS.

A critical risk for the coming year will be the impact of the Covid-19 pandemic, which will reduce some of the Council's income streams such as port dues and parking fees, and expenditure on some services may increase. However, the Council ended 2018/19 with a General Fund balance of £28m and was expected to have a General Fund balance of £20m at the end of 2020/21 prior to Covid-19. In addition, the council had earmarked General Fund reserves of £168m at the end of 2018/19, some of which could be redirected if the need arose. Although Covid-19 is putting the Council under financial pressure, the Council has adequate reserves to absorb this, and is developing a financial strategy to ensure that the most significant impacts are absorbed without detriment to the vital services that the authority provides, many of which are under increased pressure because of the impacts of the pandemic.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Recruitment and induction

The Council operates a robust interview and selection process to ensure that Officers are only appointed if they have the right levels of skills and experience to effectively fulfil their role. If working with children and/or vulnerable adults they will be subject to an enhanced criminal records check prior to appointment. New Officers must attend an induction day, which provides information about how the organisation works. Newly elected Councillors are required to attend an induction which includes information on: roles and responsibilities; political management and decision-making; financial management and processes; health and safety; information governance; and safeguarding.

Training and development

All Officers are required to complete a number of mandatory e-learning courses including health and safety, equalities and diversity, financial rules, and information governance. Officers and Members have access to a range of IS, technical, soft skills and job specific training courses. Compulsory training is provided for Members who sit on the following committees: Governance and Audit and Standards Committee, Licensing Committee, and the Planning Committee. Other member-led training is available to Councillors through Democratic Services and Learning and Development. The package of support available gives Members the opportunity to build on existing skills and knowledge in order to carry out their roles effectively.

Performance monitoring

All Officers receive regular one to ones with their Manager in order to monitor workload and performance. Opportunities are provided for identifying future training and development needs, and to track progress against objectives. The effectiveness of individual performance monitoring is tracked in a number of ways, including by asking staff about it as part of regular employee opinion surveys.

The Covid-19 pandemic is an enormous test of the capacity of the organisation. Many officers have been required to work under extreme pressure, and in different circumstances, such as increased home working. Others will have been required to move into different roles to supplement business critical activity. There will be a challenge for the organisation to ensure that the wellbeing of staff is managed, and that the impacts of the pandemic are sensitively addressed.

F. Managing risks and performance through robust internal control and strong financial management

Risk management

The Council has reviewed its approach to managing risks over the last year and approved a revised Risk Management Policy, which seeks to embed a culture of risk awareness within everyday activities. All significant risks (defined as something that may result in failure in service delivery, significant financial loss, non-achievement of key objectives, damage to health, legal action or reputational damage) must be logged on a Corporate Risk Directory, profiled (as high/medium/low), and mitigating measures/assurances must be put in place. The new approach minimises formal processes and unnecessary documentation, whilst ensuring that risk management remains an effective part of the governance framework. There is an increased focus on strategic risks.

Performance management

All directorates in the authority report on a quarterly basis against a full set of performance measures which reflect the functions and objectives of the directorates. These measures are reported to the Cabinet Members and considered in detail at the Governance and Audit and Standards committee. An annual overview of performance is produced and published alongside the Statement of Accounts.

Financial management

The s151 Officer is responsible for leading the promotion and delivery of good financial management so that public money is safeguarded at all times, ensuring that budgets are agreed in advance and are robust, that value for money is provided by our services, and that the finance function is fit for purpose. He advises on financial matters to both the Cabinet and full Council and is actively involved in ensuring that the authority's strategic objectives are delivered sustainably in line with long term financial goals. The s151 Officer together with finance staff ensure that new policies or service proposals are accompanied by a full financial appraisal which is properly costed, fully funded and identifies the key assumptions and financial risks that face the council.

Financial Rules were revised in 2013/14 by the s151 Officer so that Portsmouth City Council can meet all of its responsibilities under various laws, and continue to be updated on a rolling basis. They set the framework on how we manage our financial dealings and are part of our City Constitution. They also set the financial standards that will ensure consistency of approach and the controls needed to minimise risks. The s151 Officer has a statutory duty to report any unlawful financial activity or failure to set or keep to a balanced budget. He also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

The authority's financial management arrangements conform to the government requirements of the CIPFA Statement on "The role of the chief financial officer in local government (2010)". The Director of Finance (Chief Financial Officer and s151 Officer) works with the Chief Executive and Deputy Chief Executive, helping to develop and implement strategy and deliver the strategic objectives. The Chief Finance Officer has input into all major decisions, and advises on financial matters to the Cabinet. He is responsible for ensuring that budgets are agreed in advance and that the agreed budget is robust, to ensure value for money is provided by our services, and is responsible for ensuring the finance function is fit for purpose. A protocol for the Chief Financial Officer in Portsmouth was approved in November 2011.

Data Management

The organisation has a designated data protection officer and clear and established processes for ensuring data is handled appropriately. There is regular reporting to the Governance, Audit and Standards committee on matters of information governance. The organisation has undertaken thorough preparation for the introduction of the General Data Protection Regulation, including enhanced training for all staff.

It is important to note that whilst there are strong processes for information management in the organisation, there have been a number of changes in processes to ensure that there is rapid response to community requirements as a result of the pandemic, and a number of new areas of business that the organisation has had to respond to quickly. An example would be the administration of business support grants. In some cases, we will, as an organisation, have identified some areas where standard practices and processes can be streamlined, and may never return to the previous way of working. In other cases, we may have increased exposure to fraud or error, and will need to move as quickly as

possible to re-establish necessary controls. A further example arising from the pandemic is a greater use of digital technology to interact with communities and partners presenting new challenges as well as new opportunities to review information management controls and make improvements to records management. Again, this is an area where the organisation will need to evaluate the learning as part of recovery, including balancing the risks and opportunities in new ways of working.

G. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

Transparency

The Council and its decisions are open and accessible to the community¹², service users, partners and its staff. The Freedom of Information Act 2000 (FoI) gives anyone the right to ask for any information held by a public authority, which includes Portsmouth City Council, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

All reports requiring a decision are considered by appropriately qualified legal, and finance staff with expertise in the particular function area before they are progressed to the relevant committee/group. Portsmouth City Council wants to ensure that equality considerations are embedded in the decision-making and applied to everything the Council does. To meet this responsibility, equality impact assessments are carried out on all major council services, functions, projects and policies in order to better understand whether they impact on people who are protected under the Equality Act 2010 in order to genuinely influence decision making. Information required to be published in made public in timely and accessible fashion.

Effective scrutiny

The Council operates five Scrutiny Panels¹³, overseen by a Scrutiny Management Panel and governed by their own terms of reference. It is important that Scrutiny Panels act effectively as one of their key tasks is to review and challenge the policy decisions that are taken by Cabinet. Topics that are chosen to be 'scrutinised' are looked at in depth by a cross party panel of Councillors. They assess how the Council is performing and see whether they are providing the best possible, cost effective service for people in the city. The panel's findings are reported to the Cabinet and may result in changes to the way in which services are delivered.

Monitoring and evaluating the effectiveness of the governance framework

Portsmouth City Council has the responsibility for conducting at least annually, a review of the effectiveness of its governance framework. The review of effectiveness is informed by the work of:

- The Chief Executive, Deputy Chief Executive and Directors within the Authority who have responsibility for the development and maintenance of the governance environment.
- The Chief Internal Auditor's annual report and opinion, and also by comments made by the external auditors and other review agencies and inspectorates.
- The Chief Financial Officer whose role is performed by the Director of Finance and Resources (and who is also Portsmouth City Council's Section 151 Officer) who has statutory responsibility for ensuring the proper management of all Portsmouth's financial affairs.

¹² Meetings, agendas and minutes: <http://democracy.portsmouth.gov.uk/uucoverpage.aspx?bcr=1>

¹³ Further information on our Scrutiny Panels can be found at: <http://democracy.portsmouth.gov.uk/mgListCommittees.aspx?bcr=1>

- The Corporate Governance Group, made up of the Chief Executive, the monitoring officer, the Chief Internal Auditor, the Director of Finance and Resources (Section 151 Officer) and the Director of C
- Corporate Services with input from others as relevant. This group meets regularly to discuss corporate governance arrangements and issues, and to reflect on recurring themes and spheres of activity relating to council improvement.
- The Governance and Audit and Standards Committee

There is clear framework for evaluating the effectiveness of internal control, and for 2019/20 this has included:

- An evaluation of progress against previously identified governance issues.
- Reviews of:
 - The effectiveness of Internal and External Audit.
 - External Audit's Annual Plan and opinion.
 - The Annual Internal Audit report and opinion.
 - The Corporate Risk Directory.
 - Issues identified through performance management.
 - Corporate complaints and any complaints regarding Members.
 - Freedom of information requests.
 - Data protection and information governance issues.
 - Employee Opinion Survey results.

It is important to note that in 2020/21, the impact of the Covid-19 pandemic will be to significantly reduce the coverage of the wider assurance framework on the organisation. There will be a slightly reduced audit plan, to take account of changing circumstances, and reduced activity of a number of external inspectorates and regulators, as well as change in focus in some cases. It is also likely that some regular forms of insight, such as the Employee Opinion Survey will need to refocused .

Significant governance issues for 2020/21

Portsmouth City Council have completed a number of actions over the last year, that have addressed or alleviated significant governance issues identified in the 2018/19 Annual Governance Statement. The following significant governance issues have been identified and further actions have been put in place against each, in order to strengthen the Council's governance arrangements.

| Ref | Governance issue | Source | Actions to address the issue | Measures of success | Lead/s | Timescale |
|-----|---|---|--|--|---|---|
| 1 | Information governance - fulfilling responsibilities and requirements under the General Data Protection Regulation | Risk Management | Corporate working group to continue to ensure compliance with GDPR and Data Protection Act responsibilities | Good state of organisational compliance and low risk of sanction. | Chief Internal Auditor | Ongoing progress reporting to portfolio holder and committees. |
| 3 | Disaster recovery - risk management activity has identified that improvements need to be made in our arrangements for recovery in the event of losing key systems. | Highlighted through risk management and business continuity activity | Moving key elements of the IT infrastructure to the cloud to increase resilience of the systems critical to business continuity, reducing reliance on "on-premises" infrastructure. | Capability to restore key IT functions for the authority more quickly than the current 3-5 days. | Director of Corporate Services | Ongoing development and review |
| 4 | The council continues to explore new ways of working, including partnering and alternative service delivery models (including with the voluntary, community and social enterprise sector) and taking more commercial approaches | Internal and external audit; performance and risk management activity | <ul style="list-style-type: none"> a) Ensure arrangements for traded services and arms-length organisations are fit for purpose b) Ensure new partnering arrangements have full regard to legal, financial and HR implications c) Look at arrangements for assurance on partner organisations and related parties | Ongoing - various structures for different arrangements | Chief Executive & Chief Internal Auditor | Necessary changes reported on a regular basis to Cabinet, Governance, Audit and Standards Committee and Employment Committee. |
| 5 | Compliance with statutory duties and other external requirements and directives: ongoing changes in the work of | Performance and risk management | - Service and resource planning to set out scope of requirements and the needs to fulfil these. | n/a | Chief Executive and all service directors | Ongoing reports to portfolios and committees. |

| Ref | Governance issue | Source | Actions to address the issue | Measures of success | Lead/s | Timescale |
|-----|--|--|---|--|--|--|
| | local government and the role in relation to other agencies means that the organisation needs to monitor the scope of duties, powers and expectations. Examples include Air Quality, National Planning Policy Framework expectations, Brexit risks and burdens | | | | | |
| 6 | Budget/ financial position, specifically in respect of demand-led services including Adults and Children's Social Care and impact of financial uncertainty | External audit plan | Ongoing monitoring of progress - transformation strategies developed | Financial gaps closing and eliminated over the medium term | Director of Finance, Director of Children's Services and Chief of Health and Care Portsmouth | Ongoing quarterly reporting on financial position to Cabinet; updates to portfolio holders |
| 7 | New governance and working processes across strategic partnership arrangements, including closer integration with the clinical commissioning group | Internal self-assessment | Ongoing monitoring of progress | Robust governance across complex partnership agendas | Chief Executive | Ongoing reporting |
| 8 | Capacity within the organisation and key individuals, in light of further organisational restructure | External Audit reports; internal self-assessment | Ongoing monitoring of progress, including through quarterly performance reporting; longitudinal study of workforce capacity and risks | n/a | Chief Executive | Ongoing reporting |

| Ref | Governance issue | Source | Actions to address the issue | Measures of success | Lead/s | Timescale |
|--|---|---|--|---------------------|---|--|
| Governance risks and exposures relating to Covid-19 | | | | | | |
| 9a | Changed ways of working in light of pandemic - more remote working, more digital working, streamlined processes - what stays long term and what were short-term fixes that will revert? What might be the impact of changed ways of working on evidence trails? | Covid-19 pandemic response and recovery plans | Issues will be worked through as part of the wider organisational recovery plan from the pandemic. | | Chief Executive/ Gold Group | As part of organisational recovery |
| 9b | New duties and responsibilities eg. grant administration, local outbreak plans | Covid-19 pandemic response and recovery plans | | | Chief Executive/ Gold Group | As part of organisational recovery |
| 9c | Reduced assurance framework - how to ensure organisation still doing the right things, in the right ways and achieving the right outcomes | Covid-19 pandemic response and recovery plans | | | Chief Executive/ Gold Group | As part of organisational recovery |
| 9d | Financial risk - challenge of addressing additional costs and lost income arising from the pandemic | Covid-19 pandemic response and recovery plans | | | Chief Executive/ Director of Finance and Resources / Gold Group | As part of organisational recovery |
| 9e | Capacity risk - how to ensure that the organisation retains capacity in key areas with risk of staff wellbeing and "burnout", and with officers simultaneously | Covid-19 pandemic response and recovery plans | | | Chief Executive/ Gold Group | As part of the organisational recovery |

| Ref | Governance issue | Source | Actions to address the issue | Measures of success | Lead/s | Timescale |
|-----|---|--------|------------------------------|---------------------|--------|-----------|
| | addressing emergency response issues, recovery and business and usual activity - challenge to deliver any transformational activity in support of longer term goals | | | | | |

Effectiveness of the system of internal control

During 2019-20 Internal Audit & Counter Fraud completed 57 full audits and 31 follow up reviews to plan. The results show that the level of 'No Assurance' and 'Limited Assurance' audited areas have decreased from the previous year, which is positive move and reinforces the judgement that the direction of travel is that of 'good improvement'.

This position is however countered by a residue issue, which has been highlighted over several years that the number of implemented actions, still remains poor, with only a 1% improvement from last year (Previously 40% actioned, increased to 41% for 2019/20). Although arrangements were amended and clients were given prior notice additional steps need to be enacted. Internal Audit will be conducting a second follow up on open/ in progress actions and, should inactivity remain, escalation to the Corporate Governance Board and individual directorates on a quarterly basis will occur.

Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance. Limited Assurance is provided again this year, with the above narrative that the internal control framework in operation at Portsmouth City Council is improving.



Any significant corporate weaknesses and agreed actions are reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2019/20 may affect that year's work for External Audit. It may also inform their work for 2020/21 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.

Summary of significant governance issues for 2020/21

Over the coming year, Portsmouth City Council will take steps to address the issues that have been identified in order to improve the Council's governance arrangements and improve assurance in the areas of most concern. Progress will be monitored and reported to the Governance and Audit and Standards Committee regularly over the next year.

Clearly, a very significant number of risks and governance exposures for the organisation arise from the immediate response to the Covid-19 pandemic, and these will need to be addressed as part of the recovery. However, it must be recognised that the nature of the situation is that some areas of the business will still be working in a "response" phase even when others have moved onto a recovery or even business as usual footing, so there will be variation of approach across the organisation. These issues will be reported on as part of the usual reporting against the matters in the Annual Governance Statement and summarised in the Annual Governance Statement for 2020/21.

Signed on behalf of Portsmouth City Council

Cllr Gerald Vernon-Jackson, Leader of the Council

Date

David Williams, Chief Executive

Date _____

Portsmouth City Council

Audit planning report update

Year ended 31 March 2020

July 2020





Members of the Governance and Audit and Standards Committee

13 July 2020

Portsmouth City Council
Civic Offices
Guildhall Square
Portsmouth
PO1 2BG

Dear Governance and Audit and Standards Committee Members

Audit Planning Report update – Year ended 31 March 2020

This report seeks to provide the Governance and Audit and Standards Committee with an update to our risk identification for the 2019/20 audit, reflecting the changes in risks identified in the current year.

In our audit planning report presented to the 3 March 2020 Governance and Audit and Standards Committee, we provided you with an overview of our audit scope and approach for the audit of the 2019/20 financial statements. Following the coronavirus outbreak (Covid-19) in March 2020, we have re-assessed our audit scope and strategy. We provide here an update to the significant accounting and auditing matters, and audit approach outlined in the Audit Planning Report.

This report is intended solely for the information and use of the Governance and Audit and Standards Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 24 July 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP



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Audit risks





Audit risks

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Inappropriate capitalisation of revenue expenditure

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Financial statement impact

We have assessed that the risk of fraud in revenue and expenditure recognition is most likely to occur through the inappropriate capitalisation of revenue expenditure. This would have the impact of reducing revenue expenditure and increasing additions to Property, Plant and Equipment.

What is the risk?

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 assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.



Audit risks

Our response to significant risks (continued)

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of Lakeside North Harbour asset

What is the risk?

During the 2019-20 financial year, Portsmouth City Council purchased the Lakeside North Harbour office complex located in Portsmouth as part of their regeneration policy for the area.

The business campus sits in a 120-acre site, located to the north of Portsmouth City Centre, and comprises 594,000 sq ft of offices, 3,000 parking spaces, a day nursery and 8.7 acres of development land.

This is a highly significant and material property, plant and equipment asset. The valuation of the asset is carried out in accordance with the methodologies and bases for estimation set out in relevant professional standards. However, a number of key inputs into the valuation are judgmental and subjective.

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

Update – Covid-19

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures, as we had already planned to use our internal specialists to review the valuation.

Financial statement impact

The Lakeside site was purchased for £138m in August 2019, and is highly material to the financial statements.

A misstatement of less than 10% of the asset value would exceed our performance materiality.



Audit risks

Our response to significant risks (continued)

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of Investment Properties

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Financial statement impact

The fair value of investment properties at 31 March 2019 was £182m.

What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts and is 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 balances recorded in the balance sheet.

Update – Covid-19 related constraints on property valuation

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end.

Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations.

Our procedures to address this risk are set out on the following page.



Audit risks

Our response to significant risks (continued)

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer;
- Test accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Ensure that appropriate disclosure has been made in the financial statements concerning the material uncertainty, including in the 'Assumptions made about the future and other major sources of estimation uncertainty' note; and
- Obtain input from EY Real Estates, our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the estimated rental values/yields.

Other areas of audit focus

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

What is the area of focus?

Valuation of Land and Buildings

The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded on the balance sheet. The value of PPE at 31 March 2019 was £1.27bn.

Update – Covid-19 related constraints on property valuation

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end.

This impact is expected to affect PPE valued at Existing Use Value (EUV) as the valuation basis for these properties is linked to recent market transactions.

What will we do?

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions;
- Ensure that appropriate disclosure has been made in the accounts concerning the material uncertainty, including in the 'Assumptions made about the future and other major sources of estimation uncertainty' note; and
- If required, obtain input from EY Real Estates, our internal specialists on asset valuations for PPE, including inputs on market sentiment and how it has been reflected in valuations which are based on EUV and fair value.

Audit risks

Other areas of audit focus (continued)

What is the area of focus?

Going Concern

Covid-19 has created a number of financial pressures throughout Local Government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced income losses in parking, commercial, leisure services and other areas. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 *Going Concern*, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.

What will we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we will be seeking a documented and detailed consideration to support management's assertion regarding the use of the going concern basis of preparation, and particularly with a view whether there are any material uncertainties for disclosure.

We will review your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We expect you to disclose any material uncertainties that do exist.

These disclosures should also include the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).

Our audit procedures to review these will include consideration of:

- The current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting; and
- Sensitivities and stress testing.



Audit risks

Other areas of audit focus (continued)

What is the area of focus?

New accounting standard – IFRS 16

In our Audit Planning Report issued in February we identified an inherent risk in relation to the implementation of the new accounting standard IFRS 16 (Leases) . Due to the impact Covid-19, the adoption of this standard was deferred to 2021/22.

What will we do?

- Since IFRS 16 (Leases) has not yet been adopted by the Code, the Council no longer needs to disclose the financial impact of this new accounting standard in the 19/20 accounts. We therefore no longer consider this to be an area of audit focus.

Other areas of audit focus

PFI Accounting
 Pension Liability Valuation
 Minimum Revenue Provision

- Restatement of Comprehensive Income and Expenditure Statement/Expenditure and Funding Analysis/Related Notes
- Group Accounts Assessment

In our Audit Planning Report issued in February we identified inherent risks in relation to the areas above. There is no impact on these risks as set out in our Audit Plan as a result of Covid-19.

Additional Procedures

Audit Process overview

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy are as follows:

- Information Produced by the Entity (IPE): There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the likely inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We will:
 - Use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we're auditing as far as possible; and
 - Agree IPE to scanned documents or other system screenshots.
- Additional EY consultation requirements concerning the impact on auditor reports.

The changes to audit risks and audit approach will change the level of work we perform. This may impact the audit fee. We will agree changes to the audit fee with management and report back to the Governance and Audit and Standards Committee in our Audit Results Report.

Materiality

Materiality

We have considered the materiality levels we reported to you in our Audit Planning Report, and whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis and percentages for planning materiality, performance materiality and the threshold for reporting audit differences set out in our Audit Planning Report remain appropriate. We will update the values based on the draft 2019/20 financial statements when they are issued.



02

Value for Money Risks





Value for Money risks

Value for Money risks

There is no change to the identified value for money risk, or our planned procedures, as a result of Covid-19. The risk identified in our Audit Plan is reiterated below.

What is the risk?

During the 2019-20 financial year, Portsmouth City Council purchased the Lakeside North Harbour office complex located in Portsmouth as part of their regeneration policy for the area.

The business campus sits in a 120-acre site, located to the north of Portsmouth City Centre, and comprises 594,000 sq ft of offices, 6,000 parking spaces, a day nursery and 8.7 acres of development land.

The Lakeside site was purchased for £138m in 2019/20. The purchase was funded through external borrowing, requiring an extension to the Council's maximum borrowing levels in its Treasury Management policies to facilitate the acquisition. The borrowing will lead to increased Minimum Revenue Provision charges and interest payments in future years.

The financial outcomes relating to the asset are contingent in part on occupancy levels of the on-site premises.

What will we do?

We will:

- Review the robustness of the financial appraisals supporting the purchase of Lakeside, to include consideration of the expected financial outcomes from the site and the related impact on the Council's finances; and
- Review the process undertaken to evaluate and approve the purchase, including understanding the involvement of officers, members and external experts at key stages.

Agenda Item 7

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Portsmouth
CITY COUNCIL

| | |
|--------------------------|--|
| Title of meeting: | Governance and Audit and Standards Committee |
| Subject: | Procurement Management Information |
| Date of meeting: | 24 th July 2020 |
| Report by: | Richard Lock - (Acting) Procurement Manager |
| Wards affected: | N/A |

1. Requested by

Governance and Audit and Standards Committee.

2. Purpose

To provide evidence to allow the committee to evaluate the extent that Portsmouth City Council is producing contracts for goods, works and services in a legally compliant value for money basis.

3. Information Requested

The report covers 3 key performance monitoring areas:

- Spend compliance
- Contract award via waiver
- Contract management performance monitoring

At the request of the committee and in view of pressure in resources as a result of the CVD19 pandemic, the report has been significantly streamlined from previous reports to just provide the top level statistics and analysis.

The report focuses upon comparison between performance from the last time period reported to the committee on 3rd March 2020 with the latest recent information available in order to highlight any impacts upon performance which could be attributed to the CVD19 pandemic.

Where detail is required by the committee the Procurement Manager will provide this during the committee meeting.

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SECTION 1 - SPEND COMPLIANCE

The table on the following page provides a comparison of spend compliance from the last report taken to the committee on 3rd March 2020 which covered the month of September 2019 against spend compliance covering the month of May 2020.

Unfortunately due to a system error a more recent report covering spend in June 2020 could not be run, this is currently being investigated and a further update covering June will be forwarded to the committee as soon as it is available.

Compliance is measured initially by reporting on spend linked to a contract entry which has been raised on the council's InTend system. The presence of a contract entry on the InTend system implies that either:

- The contract has been awarded following a procedure which complies with the council's Contract Procedure Rules (CPRs) and wider statutory Public Contracts Regulations (2015) (PCRs)
- A waiver to depart from requirements set out within the council's CPRs and / or PCRs has been approved by the relevant director, Procurement Manager and / or Procurement Gateway Board as proportionate to the value and risk associated with the contract in question

It should be noted that as compliance is determined by the presence or not of a contract entry which may have been subject to award via waiver which approves departure from CPRs and / or PCRs, 'compliance' in this instance is defined as system compliance rather than constitutional or legal compliance.

It should also be noted that the report does not include for financial transactions from all of the council's systems and solutions. This includes for payments made via purchasing cards, utilities transactions, social care systems, CHAPS payments, cheque payments, etc.

Further analysis and subsequent updating of the report is then undertaken by the Procurement Manager to identify any spend which is actually compliant by virtue of application of competitive process, departure via waiver agreed or to be agreed and valid exemptions. Due to resource pressures this analysis has focused upon spend by individual transaction in excess of £20k which is still some way below the council's tender and director delated authority thresholds of £100k.

A summary of the analysis undertaken by service area is included within the report subsequent to the data table. A target of 95% compliance overall and by service has been set previously by the committee.

Whilst more manual updating has been required in respect of the data taken for May 2020 - the raw system compliance % is 64% - the subsequent adjusted compliance figure has remained high at 97% which is actually higher than the 96% recorded for September 2019.

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The updating has highlighted the need for a level of corrective action in respect of properly recording contracts on InTend, highlighting exempt transactions and processing waivers above that usually encountered signalling a lapse in administration diligence as result of the CVD19 pandemic.

The Procurement Manager will work with services to address this and will continue to feed in requirements to the current Fusion project which will greatly improve data recording and retrieval from finance systems. The Procurement Manager will also investigate how greater compliance data capture can be achieved across all council systems, through both short term workarounds and on a long term basis via the Fusion project.

Key

- **NC - Non-compliant**
- **C - Compliant**

| | September 2019 | | | May 2020 | | |
|---|--------------------|-----------------|------------|----------------------|--------------------|------------|
| Directorate | Total £ | NC £ | C % | Total £ | NC £ | C % |
| Adult Services | £912,361 | £15,992 | 98% | £284,248 | £17,248 | 94% |
| Children Families and Education | £1,715,974 | £376,885 | 78% | £1,371,641 | £11,181 | 99% |
| Corporate Services | £552,295 | £648 | 100% | £974,288 | £46,323 | 95% |
| Culture Leisure and Regulatory Services | £372,172 | £9,250 | 98% | £105,763 | £31,873 | 70% |
| Executive | £4,994 | £4,994 | 0% | £26,588 | £1,399 | 95% |
| Finance | £66,082 | £0 | 100% | £268,822 | £27,430 | 90% |
| Housing Neighbourhood and Building Services | £5,041,435 | £62,128 | 98% | £1,391,339 | £27,714 | 98% |
| Portsmouth International Port | £318,779 | £0 | 100% | £1,021,150 | £12,770 | 99% |
| Public Health | £510,134 | £0 | 100% | £239,203 | £0 | 100% |
| Regeneration | £238,122 | £31,860 | 87% | £444,601 | £66,639 | 85% |
| Capital schemes | £2,946,417 | £9,255 | 100% | £3,680,519 | £47,042 | 99% |
| TOTAL | £12,678,764 | £510,993 | 96% | £9,808,168.67 | £313,413.39 | 97% |

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Adult Services

Whilst compliance has fallen just below the 95% target to 94% risk is considered low as the total non-compliant spend is low at £17,248 and spread across a number of suppliers, with no one transaction close to the council's tender threshold of £100k.

However, it should be noted that as stated previously these figures do not include for payments made to social care providers which are processed via the Controc system.

Children, Families & Education

Compliance has increased through further analysis of payments made for out of area educational services (£742,671) and fostering services (£115,967) which has removed this spend from the non-compliance figure.

As stated to the committee previously the services in question are sourced from specialist niche suppliers, often subject to user decisive user choice, in the case of educational services are often sourced from fellow public sector bodies and are all classed as services which fall under the light touch regime - the value for which is approx. £589k.

The Procurement manager will work with the service to complete the required governance documentation and ensure that contract entries are raised on the InTend system.

However, it should be noted that as stated previously these figures do not include for payments made to some children's social care providers which are processed via the Mosaic system.

Corporate Services

No concerns.

Culture Leisure and Regulatory Services

Whilst compliance is significantly below the % target at only 70% compliance risk is still considered low as non-compliant spend is only £31,873 and is spread across a range of suppliers.

Executive

No concerns.

Finance

Whilst compliance has fallen below target at 90% risk is considered low as non-conforming spend is only £27,430 and is spread across a number of suppliers.

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Housing Neighbourhood and Building Services

No concerns. However, it should be noted that payments to utilities providers managed on behalf of the council by this service are not included, they are however known by the Procurement manager to be compliant in this area of spend.

Portsmouth International Port

No concerns.

Public Health

No concerns.

Regeneration

Whilst the compliance target has not been met risk is considered low as non-compliant spend is only £66,639 and is spread across a number of suppliers.

SECTION 2 - CONTRACT AWARD VIA WAIVER

The tables below show a comparison of contracts awarded via waiver in July / August / September 2019 as per the report taken to committee on 3rd March 2020 against those awarded via waiver for April / May / June 2020.

Whilst waivers are to be sought for any significant departure from the council's CPRs the report focuses upon waivers which have constituted a direct award without application of competition to the protocols set out within the CPRs and wider statutory PCR's.

In order to effectively respond to the Covid19 pandemic a higher number of waivers have been sought on this basis. This has been due in one hand to quickly source essential emergency supplies and services, but also to extend contracts outside of specified terms where council and supplier resources that would have run or responded to re-tendering processes were redeployed onto essential response activities or, in the case of some supplier bidding teams, furloughed.

There is clear provision within the PCRs to allow for direct award and contract variations in order to respond to genuine emergency situations such as the Covid19 pandemic. The Cabinet Office issued a Procurement Policy Note (PPN 01/20) on 18th March 2020 to remind public sector bodies of the flexibilities allowed for within PCRs already and as such did not introduce any new policy on this basis.

Whilst lack of resource is not usually allowed for as a valid reason to delay re-tendering processes via direct award to the incumbent supplier it is of the opinion of the Procurement Manager that this has in effect become the norm across the public sector following the introduction of stringent lockdown measures by central government on 23rd March.

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This opinion is informed by continual peer review with procurement managers who represent a large number of county and unitary councils on the Central Buying Consortium, direct discussion with Cabinet Office, feedback from suppliers and engagement with QCs who specialise in procurement law cases via a number of webinars.

Use of direct awards to extend contracts on this basis is viewed as low risk in terms of potential for challenge as long as the term of the direct award is proportionate to the time required to run an effective re-tender and is not unnecessarily long to the point where it can be construed as creating an artificial barrier to competition.

Under the CPRs waivers can be approved by:

- Director including for Assistant Directors given delegated authority by the Director - up to £100k
- Procurement manager - up to £1M
- Procurement Gateway Board - above £1M

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

The Procurement Manager also delegated approval of waivers on a procurement basis to the IT Category Manager / Assistant Procurement Manager at a limit of £500k and to Procurement Professional at a limit of £250k. It is the intention of the Procurement Manager to maintain these delegations for business as usual authorisations in the future.

Use of waivers in Q3 (July / August / September) 2019:

| Reason for waiver | Number of contracts | Contract value |
|---------------------------------|---|--|
| Direct award | 44 | £1,601,453 |
| Not obtaining 3 bids | 8 | £179,903 |
| Insufficient time | 4 | £340,043 |
| Single source | 4 | £137,100 |
| Emergency | 1 | £10,000 |
| Not advertising the opportunity | 1 | £31,510 |
| Total | 62 (56% of all contracts awarded in Q3) | £2,300,009 (6% of all contracts awarded in Q3) |

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Use of direct award waivers in March / April / May / June 2020

| Reason for direct award waiver | Number of Contracts | Contract value |
|---|---------------------|-------------------|
| Business as Usual Direct award | 21 | £923,026 |
| Waivers agreed due to Covid-19 (re-tender delay) | 25 | £3,563,166 |
| Waivers in response to Covid-19 (emergency supplies / services) | 45 | £3,818,009 |
| Total | 92 | £8,304,201 |

Below is a summary level analysis undertaken by the Procurement Manager. Further details can be provided to the committee at the meeting.

Business as Usual Direct Awards

No significant concerns. Only 1 direct award contract is in excess of the PCR relevant of threshold of £189k for provision of services at £242,961 which upon review is not in breach of PCR requirements as in this case competition can be argued as being technically absent. 1 other contract is above the council's CPR tendering threshold £100k at £110,698 but again the waiver was approved by the Procurement Manager on the basis of competition being technically absent.

Waivers agreed due to Covid-19 (re-tender delay)

No significant concerns. All predominantly linked to social care and other services required to support the vulnerable where continuation of supply must be a priority outcome. The majority of direct awards are for a year or less with only 4 contracts subject to a direct award of more than 1 year but no more than 18 months for 3 of them and 2 years for 1.

The Procurement Manager is working with services to develop realistic re-tendering programmes. This may require further direct awards to some contracts so that programmes can be staggered in view of ongoing resource pressures for the council and suppliers alike.

Waivers in response to Covid-19 (emergency supplies / services)

No significant concerns. All waivers are fully justified and fall within the emergency response definitions set out within PCRs. The waivers are concerned with spend on IT equipment to support home working, PPE, food for sheltered individuals, hotel accommodation for non-statutory homeless and outpatient discharge facilities.

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

SECTION 3 - CONTRACT MANAGEMENT PERFORMANCE MONITORING

Contract management performance is monitored at summary level by application of a set of standard KPIs which are scored and reported on via the InTend system. Contracts are reported are on against the following criteria:

Key

- Gold: Outstanding performance
- Green: Performing to standard
- Amber: Some areas of improvement required
- Red: Failing to perform
- Expired KPI: a schedule is in place, and at least one KPI score has been recorded, but there has been no KPI scoring in the last 12 months
- KPI never scored: a schedule is in place, but there have been no KPI scores for the contract
- KPI not yet due: a schedule is in place, but KPI scores are not due yet. This includes contracts where KPIs are overdue by less than 3 months (grace period)
- No KPI scheduled: no KPI instances have been scheduled.

KPI performance for April, May and June 2020 is as follows:

| | Value of Contracts | Number of Contracts |
|--------------------|---------------------------|----------------------------|
| RED | £72,000 / 0.11% | 1 / 0.5% |
| AMBER | £408,405 / 0.66% | 4 / 2.07% |
| GREEN | £14,113,428 / 23% | 71 / 36.8% |
| GOLD | £10,066,151 / 16% | 9 / 4.7% |
| KPI never scored | £18,362,496 / 30% | 50 / 26% |
| NO KPI scheduled | £1,861,960 / 3.03% | 15 / 7.8% |
| NOT YET DUE | £1,287,830 / 2.10% | 22 / 11.4% |
| KPI expired | £15,213,494 / 24.8% | 21 / 10.9% |
| Grand Total | £61,385,764 | 193 |

Further detail on individual contracts can be provided by the Procurement manage to the committee at the meeting. In respect of the 1 contract which is shown as RED the performance issues were resolved and the contract has since expired. There are a large number of contracts where KPIs have not been scored and / or have not been kept up to

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date - 71 / 36.9%. Further analysis is required to understand if this has been due to impact on resources from the Covid19 pandemic however this number / percentage is representative of previous reports taken to the committee on this metric. The Procurement Manager will undertake further analysis and work with services to bring the monitoring up to date.

.....
Signed by Richard Lock - (Acting) Procurement Manager

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Agenda Item 8



Portsmouth
CITY COUNCIL

| | |
|-------------------------------|---|
| Title of meeting: | Governance & Audit & Standards Committee |
| Date of meeting: | 24 th July 2020. |
| Subject: | Audit Plan 2020/21 - Updates/changes as a result of COVID-19. |
| Report by: | Chief Internal Auditor |
| Wards affected: | All |
| Key decision: | No |
| Full Council decision: | No |

1. Summary

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

2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on the revised Internal Audit Plan for 2020/21.
- 2.2 In addition, the report also notes how internal audit will conduct post COVID-19 assurance work which will influence both the Annual Audit Opinion 2020/21 and the Annual Governance Statement 2019/20 & 2020/21.
- .

3. Recommendations

- 3.1 That Members note the changes to the Audit Plan 2020/21.

4. Background

- 4.1 The Annual Audit Plan for 2020/21 was presented to the Governance and Audit and Standards Committee on 3rd March 2020 and subsequently approved. The plan is revised quarterly to take account of any changes in risks/ priorities, in accordance with the Strategy.

- 4.2 On March 17th 2020, as a result of the COVID-19 pandemic, the Council enacted emergency plans and moved to running critical services only. Since that date the Council has operated flexibly and has needed to be reactive in some activities in order to meet central government requirements regarding the pandemic. These changes, while considered by senior officers, may have impacted certain internal controls and governance arrangements.
- 4.3 In addition to this and during the period of March 17th through to June 2020, Internal Audit stood down areas of operation that required client input. This was to assist the council in maintaining critical services and as a result a number of audit staff were redeployed to assist elsewhere. The reduced level of resource has therefore been considered when revising the plan.
- 4.4 The revised plan caters for the above and factors in an increase in fraud exposure and central government verification arrangements, which are reflected in a post COVID-19 assurance programme of testing which will influence both the Annual Audit Opinion 2020/21 and the Annual Governance Statement.
- 4.5 The proposed coverage of the audit universe, by this audit plan, has not affected the stated 20-25% coverage as outlined in the Audit Charter and Strategy. The post COVID-19 assurance work will support the normal audit plan and enable an Annual Audit Opinion at the end of 2020/21 to be given.
- 4.6 To ensure the safety of all staff and clients, a risk assessment will be completed prior to each item of work in relation to COVID 19. Specifically to assess whether evidence to support audit testing or an investigation can be obtained safely and in accordance with the required evidential levels.
- 4.7 Actions to minimise risk will be completed and a determination made on whether the activity can be undertaken or if the evidence strategy can be substituted by alternative means. The risk assessment will be treated as a live document until the activity has been completed. Any activities that are deemed not safe to complete will be deferred to later in the financial year, escalated to the Director of Finance or cancelled. The underlining processes for all activities will not fundamentally change.

5. Integrated Impact Assessment

- 5.1 The contents of this report do not have any relevant equalities and environmental impact and therefore an Integrated Impact assessment is not required.

6. Legal Implications

- 6.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council's legal requirements and the Council is fully empowered to make the decisions in this matter.

- 6.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

7 Finance Comments

- 7.1 There are no financial implications arising from the recommendations set out in this report.
- 7.2 The S151 Officer is content that the progress against the Annual Audit Plan and the agreed actions are sufficient to comply with his statutory obligations to ensure that the Authority maintains an adequate and effective system of internal audit of its accounting records and its system of internal control.

.....
Signed by: Elizabeth Goodwin, Chief Internal Auditor

Appendices:

Appendix A – Internal Audit Plan 2020/21 - Amended re COVID-19

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 |
|---|---|
| 1 Accounts and Audit Regulations | http://www.legislation.gov.uk/ukxi/2011/817/contents/made |
| 2 Previous Audit Performance Status and other Audit Reports | Refer to Governance and Audit and Standard meetings – reports published online. |
| 3 Public Sector Internal Audit Standards | http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards |

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....

Signed by:

| Audit | Audit Sponsor | Provisional Scope | Strategic Risk & Corporate Priorities | Comment |
|---|---|--|---------------------------------------|---|
| Residential Units | Adult Social Care | Follow up on previous exceptions raised | 3,4,11, A,B,D | |
| Supplier Due Diligence | Adult Social Care | Scope to include a review of key controls and supplier arrangements to safeguard against modern slavery. | 3,4,10,11,A,B,D | |
| Harry Sotnick | Adult Social Care | Scope to include a review of arrangement post transfer of supplier. (Now PCC) | 3,4,11, A,B,D | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Deprivation of Liberties | Adult Social Care | Follow up on previous exceptions raised | 3,4,11,A,B,D | |
| Adult Safeguarding | Adult Social Care | Scope to include a review of key controls. | 3,4,11,A,B,D | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| IT System One | Adult Social Care | Scope to include a review of key controls. | 3,4,7,8,A,B,D | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Domiciliary Care | Adult Social Care | Scope to include a review of key controls. | 3,4,11,A,B,D | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Children with Disabilities | Children, Families and Education | Scope to include a review of key controls. | 1,4,11,A,B,D | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Education Health Care Plan 19-25 years old | Children, Families and Education | Scope to include a review of the educational provision in place to 25 year olds. | 1,4,11,A,B,D | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Troubled Families Grant | Children, Families and Education | Grant Verification | 1,4,11,A,B,D | |
| Edge of Care | Children, Families and Education | Follow up on previous exceptions raised | 1,4,11,A,B,D | |
| No Recourse to Public Funds | Children, Families and Education | Scope to include a review of key operational and financial controls. | 1,4,11,A,B,D | |
| Care Leavers | Children, Families and Education | Scope to include review of statutory duties and compliance | 1,4,11,A,B,D | |
| Adoption Service | Children, Families and Education | Scope to include review of recruitment of adopters and consider effectiveness of partnerships | 1,4,11,A,B,D | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Children's Residential Unit | Children, Families and Education | Follow up on previous exceptions raised | 1,4,11,A,B,D | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. Further detail can be found below in the ADDED section. |
| Short Breaks | Children, Families and Education | Scope to include a review of key controls. | 1,4,11,A,B,D | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Schools (TBD) | Children, Families and Education | Scope to include a review of key controls. | 1,4,11,A,B,D | Schools determined, further detail can be found below in the ADDED section |
| Customer Experience | Corporate & IT | Scope of review to include impact of digital initiatives. | 7,8,10,all | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Cashiers | Corporate & IT | Scope to include a review of key controls. | 7,8,10,all | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |

| Audit | Audit Sponsor | Provisional Scope | Strategic Risk & Corporate Priorities | Comment |
|--|---|---|---------------------------------------|---|
| Information Governance (Data Security) | Corporate & IT | Scope to include data sweep and unscheduled review of security. | 7,8,all | |
| Marketing & Income-Generation | Corporate & IT | Scope of review to include income-generation. | 10,11,B,D,E | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| IT Procurement, inventory & disposal | Corporate & IT | Follow up on previous exceptions raised | 7,8,11,A,E | |
| User Access and Asset-Management | Corporate & IT | Scope to include the management/control of users access and assets | 7,8,11,A,E | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| IS Helpdesk & Desktop management | Corporate & IT | Follow up on previous exceptions raised | 7,8,11,A,E | |
| Back up and recovery Disaster recovery/Business Continuity | Corporate & IT | Scope to include a review of project underway. | 7,8,11,A,E | |
| Shared Services | Executive | Scope to include a review of capacity, contingency arrangements and infrastructure. Income tracking | 10,11,all | |
| Learning & Development | Corporate & IT | Follow up on previous exceptions raised | 2,B,D,E | |
| Apprentices Levy | Corporate & IT | Follow up on previous exceptions raised | 2,11,A,D,E | |
| Volunteering & Social Action | Culture, Leisure & Regulatory Services | Follow up on previous exceptions raised | 3,4,8,10,11,A,B,D,E | |
| Guildhall | Culture, Leisure & Regulatory Services | Follow up on previous exceptions raised | 4,9,10,A,B,D,E | |
| City Attractions (Museum) | Culture, Leisure & Regulatory Services | Scope to include a review of key financial and operational controls. | 4,9,A,B,D,E | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Water Safety | Culture, Leisure & Regulatory Services | Follow up on previous exceptions raised | 4,9,A,C,D,E | |
| Associations (Community Centres) | Culture, Leisure & Regulatory Services | Follow up on previous exceptions raised | 2,4,9,A,B,D,E | |
| Modern Slavery | Executive | Follow up on previous exceptions raised | 3,6,A,C,D,E | |
| International Visits | Executive | Scope to include review of key controls | 10,11,A,B,D,E | |
| Systems Thinking | Executive | Scope to include a review of outcomes monitoring | 4,10,11,all | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Housing & Council Tax Benefits | Finance | Scope to include a review of key controls. | 2,6,7,8,A,B,D,E | |
| Budget Monitoring & Delegated Authority | Finance | Scope to include a review of key controls. | 4,8,11,A,B,D,E | |
| Accounts Payable | Finance | Scope to include a review of key controls. | 4,7,8,11,A,B,D,E | |

| Audit | Audit Sponsor | Provisional Scope | Strategic Risk & Corporate Priorities | Comment |
|------------------------------|---|---|---------------------------------------|---|
| Accounts Receivable | Finance | Scope to include a review of key controls. | 4,7,8,11,A,B,D,E | |
| Payroll/ Pension | Finance | Scope to include a review of key controls. | 8,11,A,B,D,E | |
| Purchase Cards | Finance | Scope to include a review of key controls. | 8,11,A,B,D,E | |
| Travel & Expenses | Finance | Scope to include a review of key controls. | 8,11,A,B,D,E | |
| Rents & Charges | Housing, Neighbourhood and Building Services | Scope to include a review of key controls. | 7,8,11,13,A,B,D,E | |
| Estate Services | Housing, Neighbourhood and Building Services | Follow up on previous exceptions raised | 8,11,13,A,B,D,E | |
| Sheltered Services | Housing, Neighbourhood and Building Services | Follow up on previous exceptions raised | 8,11,13,A,B,D,E | |
| Planned Maintenance | Housing, Neighbourhood and Building Services | Scope to review Value for Money. | 4,9,11,A,B,D,E | |
| Right to Buy | Housing, Neighbourhood and Building Services | Scope to include review of due diligence arrangements and repurchases. | 4,11,A,B,D,E | |
| Homelessness | Housing, Neighbourhood and Building Services | Scope to include a review of compliance with legislation. | 4,11,A,B,D,E | |
| Claims Housing (Insurance) | Housing, Neighbourhood and Building Services | Follow up on previous exceptions raised | 8,11,A,B,D,E | |
| Gas Contract | Housing, Neighbourhood and Building Services | Scope to include a review of contract monitoring arrangements. | 4,9,11,A,C | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Out of Hours | Housing, Neighbourhood and Building Services | Scope to include a review of key operational controls. | 4,11,A,C,E | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Emergency Procedures | Housing, Neighbourhood and Building Services | Follow up on previous exceptions raised | 7,8,11,12,13,A,D,E | |
| Compliance Checks (Safety) | Housing, Neighbourhood and Building Services | Follow up on previous exceptions raised | 7,8,11,12,13,A,D,E | |
| Energy Management Grant | Housing, Neighbourhood and Building Services | Annual verification | 5,7,9,A,D,E | |
| Disabled Facilities Grant | Housing, Neighbourhood and Building Services | Annual verification | 4,11,A,D,E | |
| Homes in Multiple Occupation | Housing, Neighbourhood and Building Services | Follow up on previous exceptions raised | 3,6,A,D,E | |
| Coffee Shops | Housing, Neighbourhood and Building Services | Follow up on previous exceptions raised | A,E | |
| Langstone Harbour Board | Langstone Harbour Board | N/A | N/A | |
| Portico (TBC) | Portico | - | - | Portico audits determined, further detail can be found below in the ADDED section |

| Audit | Audit Sponsor | Provisional Scope | Strategic Risk & Corporate Priorities | Comment |
|---|-------------------|---|---------------------------------------|---|
| Income Dues Brittany | Port | Scope to include a review of key controls. | 4,11,all | |
| Income Dues Portico | Port | Follow up on previous exceptions raised | 4,11,all | |
| Marine M (Application) | Port | Scope to include a review of post-implementation delivery. | 7,8,E | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| ABP contract for Pilots | Port | Scope to include a review of key risk exposure. | 7,9,11,A,C | |
| PECS Grant | Port | Grant Verification | 7,9,11,A,C | |
| Orpheus Grant | Port | Grant Verification | 7,9,11,A,C | |
| 2SEAS Speed Grant | Port | Grant Verification | 7,9,11,A,C | |
| Department of Transport Grant | Port | Grant Verification | 7,9,11,A,C | |
| Public Health Outcomes | Public Health | Follow up on previous exceptions raised | 4,9,11,all | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| NHS Digital Submission | Public Health | Annual verification | 4,9,11,all | |
| Mental Health | Public Health | Scope to include a review of contract-monitoring arrangements. | 4,9,11,all | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Ravlin | Regeneration | Scope to include a review of the governance and delivery model. | 11,13,A,B,E | |
| Commercial Rents | Regeneration | Scope to include a review of financial & operational controls. | 8,11,all | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Local Transport Capital Grant | Regeneration | Annual verification | 11,A,C,D | |
| Home to School Transport | Regeneration | Scope to include a review of financial & operational controls. | 1,4,11,A,C,D,E | |
| Asset Register & Valuation | Regeneration | Scope to include a review of financial & operational controls. Combining 3 registers | 7,8,11,A,C,D,E | Removed from 2020/21 Audit Plan due to Covid-19 impact on PCC resources & revised risk assessment |
| Residential Parking | Regeneration | Follow up on previous exceptions raised | 11,13,all | |
| Bus Subsidy Grant | Regeneration | Annual verification | 4,11,all | |
| ADDED | | | | |
| Direct Payments | Adult Social Care | Review required due to issues arising from investigation | 3,4,11,A,B,D | |
| Alcohol Treatment Capital | Public Health | Grant Verification (delay from 201920) | 4,9,11,all | |

| Audit | Audit Sponsor | Provisional Scope | Strategic Risk & Corporate Priorities | Comment |
|----------------------------------|----------------------------------|---|---------------------------------------|--|
| Cottage Grove Primary | Children, Families and Education | School Determined | 1,4,11,A,B,D | |
| Cumberland Infant School | Children, Families and Education | School Determined | 1,4,11,A,B,D | |
| Brambles Infant School & Nurser | Children, Families and Education | School Determined | 1,4,11,A,B,D | |
| Milton Park Primary | Children, Families and Education | School Determined | 1,4,11,A,B,D | |
| Accounts Receivable | Portico | Audit determined as part of the 20/21 Portico Audit Plan | - | |
| Distribution | Portico | Audit determined as part of the 20/21 Portico Audit Plan | - | |
| Customs Agency | Portico | Audit determined as part of the 20/21 Portico Audit Plan | - | |
| Fixed Assets | Portico | Audit determined as part of the 20/21 Portico Audit Plan | - | |
| Training | Portico | Audit determined as part of the 20/21 Portico Audit Plan | - | |
| Repairs and Maintenance | Portico | Audit determined as part of the 20/21 Portico Audit Plan | - | |
| CCTV Portico | Portico | Follow up on previous exceptions raised | - | |
| Accounts Payable | Portico | Follow up on previous exceptions raised | - | |
| Workforce Planning and Policy | Portico | Audit determined as part of the 20/21 Portico Audit Plan | - | |
| Highways Permit Scheme | Regeneration | Scope to include review of key income collection controls | 7,8,11,all | New scheme requiring income verification |
| SLEP Local Growth Hub | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| Compliance with Financial Frame | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| Grant Awards including due dilig | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| Loans | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| Projects (Strategy Work) | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| IT Infrastructure | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| Payroll / Expenses | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| Insurance | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |

| Audit | Audit Sponsor | Provisional Scope | Strategic Risk & Corporate Priorities | Comment |
|----------------------------------|--|---|---------------------------------------|---------|
| Recruitment & retention of staff | SLEP | Follow up on previous exceptions raised | - | |
| Local Growth Deal grant sign off | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| Centenary Quay Grant | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| Foundations for Growth Capital | SLEP | Audit determined as part of the 20/21 SLEP Audit Plan | - | |
| Local Growth Hub | SLEP | Grant Verification | - | |
| Test and Trace grant | Finance | Grant Verification | - | |
| Infection Control Grant | Finance | Grant Verification | - | |
| Covid Assurance Reporting | Executive | Post COVID 19 Central Government requirement, anticipated to cover, PPE, PPN20, vouchers, business grants, equipment distribution etc | - | |
| Domiciliary Care | Adult Social Care | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 3,4,11, A,B,D | |
| Appointeeships | Adult Social Care | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 3,4,11, A,B,D | |
| Fostering | Children, Families and Education | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 1,4,11,A,B,D | |
| Children's Residential Unit | Children, Families and Education | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 1,4,11,A,B,D | |
| Youth Offending Team | Children, Families and Education | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 1,4,11,A,B,D | |
| Mobile Phones | Corporate & IT | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 7,8,11,A,E | |
| Modern Records | Culture, Leisure & Regulatory Services | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 4,9,A,B,D,E | |
| City Twinning | Culture, Leisure & Regulatory Services | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 4,9,A,B,D,E | |
| Outdoor Centre | Culture, Leisure & Regulatory Services | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 4,9,A,B,D,E | |

| Audit | Audit Sponsor | Provisional Scope | Strategic Risk & Corporate Priorities | Comment |
|--|--|---|---------------------------------------|---------|
| Registrars | Culture, Leisure & Regulatory Services | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 4,9,A,B,D,E | |
| Health and Safety | Housing, Neighbourhood and Building Services | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 4,9,12,A,C,D | |
| Supporting vulnerable people though Homecheck/Telecare | Housing, Neighbourhood and Building Services | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 3,4,11,A,B,D | |
| Port - CCTV | Port | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 8,all | |
| Port - IT Security, Email, back ups etc. | Port | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 7,8,all | |
| Budget Monitoring | Portico | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | - | |
| Substance Misuse | Public Health | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 4,9,11,all | |
| Contaminated Land | Regeneration | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 5,A,C | |
| Hire Cars | Regeneration | Follow up performed during 2019/20, exceptions remain open and therefore second follow up required. | 11,C | |

| Audit | Audit Sponsor | Provisional Scope | Strategic Risk & Corporate Priorities | Comment |
|-------|---------------|-------------------|---------------------------------------|---------|
|-------|---------------|-------------------|---------------------------------------|---------|

Strategic Risk

1. Pressures lead to increased caseloads and therefore reduced practice quality in children's social care, increasing vulnerability of children and leading to a preventable incident.
2. Challenges in recruiting and retaining key staff and skills into the city, meaning that key services are compromised.
3. Pressures in the local market for care services, including residential and domiciliary care, mean that care of vulnerable adults is compromised, leading to a preventable incident.
4. Reduction in services for vulnerable people, such as domestic violence and substance misuse service, lead to poorer outcomes and increased demand for other services.
5. Failure to protect the city environment, including in relation to air quality, flood defence and natural and heritage assets.
6. Exposure to national level political and legislative change (such as welfare reform) including impact on scope of duties, powers, responsibilities and service demand.
7. Exposure to system failure, including support expiry, single points of failure, cyber
8. Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures
9. Failure to fulfil health and safety responsibilities, including in respect of operational and heritage buildings.
10. Increased partnering, alternative delivery models and commercial approaches increase pressure on capacity, challenge governance arrangements, and increase risk of income loss if arrangements cease.
11. Addressing underlying budget pressures and delivering effective and sustainable services, particularly in children's and adults' services.
12. Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions.
13. Failure to deliver strategic improvements for the city, due to wider market factors

Corporate Priorities

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

Agenda Item 9



Portsmouth
CITY COUNCIL

| | |
|-------------------------------|---|
| Title of meeting: | Governance & Audit & Standards Committee |
| Date of meeting: | 24 th July 2020. |
| Subject: | Audit Performance Status Report to 30 th June 2020 & Annual Audit Opinion 2019/20. |
| Report by: | Chief Internal Auditor |
| Wards affected: | All |
| Key decision: | No |
| Full Council decision: | No |

1. Summary

- 1.1 This is an Audit Performance Status Report for the 2019-20 planned audit activities along with the overall Annual Audit Report and Opinion 2019/20. Appendix A includes the detail of progress made against the annual plan and documents individual audit findings. Appendix B is the Annual Audit Report and Opinion 2019/20 report.

2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2019/20 to 30th June 2020 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.
- 2.2 In addition to this the Annual Opinion on the effectiveness of the Internal Control Environment is provided in the attached Appendix B. This opinion feeds into the Annual Governance Statement and is a requirement of the Local Government Act 1999 and the Public Sector Internal Audit Standards.
- .

3. Recommendations

- 3.1 That Members note the Audit Performance for 2019/20 to 30th June 2020.
- 3.2 That Members note the highlighted areas of concern in relation to audits completed from the 2019/20 Audit Plan, including follow up work performed.
- 3.3 That Members note the Annual Audit Report and Opinion for 2019/20.

4. Background

- 4.1 The Annual Audit Plan for 2019/20 was drawn up in accordance with the agreed Audit Strategy and was approved by this Committee on 8th March 2019 following consultation with Directors and relevant parties. The Plan is revised quarterly to take account of any changes in risks/ priorities, in accordance with the Strategy.

5. Integrated Impact Assessment

- 5.1 The contents of this report do not have any relevant equalities and environmental impact and therefore an Integrated Impact assessment is not required.

6. Legal Implications

- 6.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council's legal requirements and the Council is fully empowered to make the decisions in this matter.
- 6.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

7 Finance Comments

- 7.1 There are no financial implications arising from the recommendations set out in this report.
- 7.2 The S151 Officer is content that the progress against the Annual Audit Plan and the agreed actions are sufficient to comply with his statutory obligations to ensure that the Authority maintains an adequate and effective system of internal audit of its accounting records and its system of internal control.

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Signed by: Elizabeth Goodwin, Chief Internal Auditor

Appendices:

Appendix A – Internal Audit Progress Report 2019/20
Appendix B - Annual Audit Report and Opinion 2019/20

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 |
|-------------------|----------|
|-------------------|----------|

| | | |
|---|---|---|
| 1 | Accounts and Audit Regulations | http://www.legislation.gov.uk/ukxi/2011/817/contents/made |
| 2 | Previous Audit Performance Status and other Audit Reports | Refer to Governance and Audit and Standard meetings – reports published online. |
| 3 | Public Sector Internal Audit Standards | http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards |

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

.....
Signed by:

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Portsmouth
CITY COUNCIL

Internal Audit Progress Report 24th July 2020

Elizabeth Goodwin, Chief Internal Auditor

1. Introduction

Internal Audit is a statutory function for all local authorities.

The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015 as to:

Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2016].

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

This report includes the status against the 2019/20 internal audit plan.

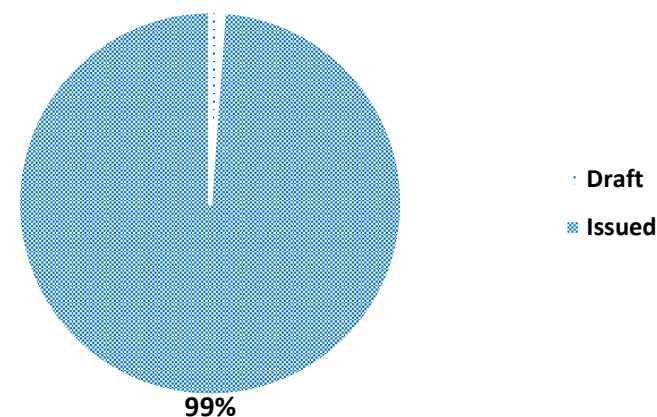
2. Audit Plan Progress as of 3rd July 2020

There are 57 Full Audits and 31 Follow ups, in the revised planned for 2019/20, totalling 88 reviews. This is an increase from the plan originally approved in March 2019 and is a direct result of a re-evaluation of risk and the completion of audits outstanding from the 2018/19 plan, where high risk findings were identified.

To date, 87 (99%) have been completed and one report remains in draft as at 30th June 2020.

| Status | Audits |
|--------------|--------|
| Identified | 0 |
| Fieldwork | 0 |
| Draft Report | 1 |
| Final Report | 87 |

Audit Plan Progress as of 3rd July 2020



3. Ongoing Internal Audit Involvement

Internal Audit has provided advice, ongoing reviews and involvement work in the following area. (For reference, advice is only recorded when the time taken to provide the advice exceeds one hour):

- Data Analysis and data matching in relation to duplicate invoices. Work has been undertaken using data analytics software to identify potential duplicate invoices and or payments with the view to conduct continuous testing in this area.
- Data matching in relation to payroll records and apprentices. Work has been undertaken using data analytics software to identify potential apprentices on the wrong national insurance tax code.
- Regulation of Investigatory Powers Act (RIPA) - authorisations (if applicable) and policy review
- Anti-Money Laundering - monitoring, reporting and policy review
- Financial Rules Waivers
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Cabinet Office
- National Anti-Fraud Network (NAFN) bulletins and intelligence follow up
- Counter Fraud Programme - proactive work to reduce the risk exposure to the authority
- Policy Hub project to ensure that all Council policies are held in one place and staff are notified of the policies relevant to them
- Governance & Audit & Standards Committee - reporting and attendance
- Audit Planning and Consultation
- Risk Management & Annual Governance Statement
- Performance Management
- 6 special investigations (excludes Benefit and Council Tax Support cases)
- 24 items of advice, (where the advice exceeds an hours work)
- Health & Safety - ongoing work

4. Audit Plan Status/Changes

The following changes have been made to the plan since the last progress report in March 2020.

Audits removed from the Audit Plan:

- Alcohol Treatment Capital Funding - Grant removed from the 2019/20 audit plan as the grant required sign off on 31st March 2020. Deferral of payment is pending on purchase of property.
- Sheltered Housing - Audit removed from the 2019/20 audit plan due to resources (PCC staff) redeployed from coronavirus impact.
- Public Health Outcomes - Audit removed from the 2019/20 audit plan due to resources (PCC staff) redeployed from coronavirus impact.
- Port Grant Brexit - Grant removed from the 2019/20 audit plan as no submission was provided by the client, to be deferred to 2020/21 audit plan if required.
- Compliance with Safety Checks - Audit deferred to the 2020/21 audit plan as too many areas remain untested from the coronavirus impact.

5. Areas of Concern

Following on from the previous 'No Assurance' audit below is the follow up summary on Port - CCTV.

Port - CCTV

An audit of the processes and procedures surrounding CCTV operation at Portsmouth Port was undertaken in accordance with the 2018/19 Audit Plan. The issues raised during that audit, and the actions agreed, have been followed up within this report.

Previous Achievement of Organisation's Strategic Objectives Assurance Level: Limited Assurance

Current Achievement of Organisation's Strategic Objectives Assurance Level: Assurance

CCTV Policy

A high-risk exception was raised during initial testing in December 2018, which revealed that there was no current CCTV policy, and that staff were not aware of the existing Code of Practice.

Follow-up enquiries have revealed that a new policy was put into place in June 2019, and revised in September 2019. The Systems/Standards Compliance Manager advised that knowledge of this policy, and CCTV security awareness, now forms part of the staff induction. A copy of the policy, as well as staff training presentation, was provided in response to testing, and all documents are available to staff via the Sharepoint system. As at March 2020, the Systems/Standards Compliance Manager has advised that a request has been made with the Port communications team to issue new policy documentation to all staff as part of the next Port Briefing.

This exception has been closed.

Previous Compliance with Policies, Laws and Regulations Assurance Level: Limited Assurance

Current Compliance with Policies, Laws and Regulations Assurance Level: Limited Assurance

Compliance with Surveillance Camera Code of Practice

A high-risk exception was raised in 2018/19, as it was not possible to demonstrate that the Port was operating in compliance with the twelve guiding principles of the Surveillance Camera Code of Practice. Compliance with these principles was evaluated with reference to a completed self-assessment tool, with clarification and further evidence provided by the Duty Port Operations Manager.

Follow-up testing has established that, whilst a number of the areas of concern have been resolved separately, a new self-assessment, undertaken by a cross-functional group from Compliance, Engineering and IT, has identified issues in the competency of the system that require action. The assessment states that the aging sprite system is starting to fail, and that replacement software is no longer available to maintain imagery to evidential requirements. Discussion following testing revealed that the Commercial Port Engineering Manager does not agree with this statement; however, it is recognised that a replacement system would be beneficial, and work on a joint project with PCC Housing is underway to explore potential synergies.

This exception remains open.

Previous Safeguarding of Assets Assurance Level: Limited Assurance

Current Safeguarding of Assets Assurance Level: Assurance

Access to the Control Room

A high-risk exception was raised in 2018/19, as an analysis of control room entry logs revealed that there was the potential for data to be viewed by unauthorised individuals.

Follow up testing established that a risk assessment has since been undertaken, and the use of visitor logs is to be continued. A sample of logs obtained during testing established that this process is being carried out as stated. Furthermore, a visit to the office revealed that a privacy screen is now in place around the CCTV monitors, and the risk of unauthorised viewing has been reduced.

This exception has now been closed.

Previous Reliability & Integrity of Data Assurance Level: Limited Assurance

Current Reliability & Integrity of Data Assurance Level: Limited Assurance

Retrieval & Use of CCTV Data

A high-risk was raised in 2018/19, as it was not possible to establish a complete management trail in relation to requests for CCTV information received by the Port.

Follow-up testing revealed that a unique reference number is now used to trace all requests for data throughout the process; however, documentation was not complete in line with the CCTV policy. The Systems Manager advised that this was due to the responsible member of staff leaving their post at short notice, leaving clarification required as to the correct procedure. An update provided by the Systems/Standards Compliance Manager in March 2020 stated that the process has been revised, with all downloads now undertaken by the Systems Manager.

The exception remains open.

Previous Completion of the audit Assurance Level: No Assurance

Current Completion of the audit Assurance Level: Limited Assurance

Two high-risk exceptions remain open at the conclusion of follow-up testing. Although the report notes that progress has been made, with a clearly defined policy, management structure, staff training and CCTV data security, the most recent self-assessment against the Surveillance Camera Code of Practice highlights issues relating to the system's suitability. There is disagreement within the management group about the wording of the self-assessment;

however, plans with PCC Housing are in place that may mitigate the concerns highlighted in the assessment. Following a change in staff, issues were also noted with regard to the management trail for CCTV requests.

Until a replacement system which clearly meets the competency standards described within the Surveillance Camera Code of Practice is in place, Internal Audit can give limited assurance that CCTV operations at the Port are of low risk to the authority.

6. Assurance Levels

Internal Audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives for the area under review.

| Assurance Level | Description / Examples |
|-----------------------------|---|
| Assurance | <i>No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority</i> |
| Reasonable Assurance | <i>Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority</i> |
| Limited Assurance | <i>Control weaknesses or risks were identified which pose a more significant risk to the Authority</i> |
| No Assurance | <i>Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit</i> |
| NAT | <i>No areas tested</i> |

Audits rated No Assurance are specifically highlighted to the Governance and Audits and Standards Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.

7. Exception Risk Ranking

The following table outline the exceptions raised in audit reports, reported in priority order and are broadly equivalent to those previously used.

| Priority Level | Description |
|-----------------------------------|--|
| Low Risk (Improvement) | <i>Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.</i> |
| Medium Risk | <i>These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.</i> |
| High Risk | <i>Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not 'show stopping' but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.</i> |
| Critical Risk | <i>Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the Council's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.</i> |

Any critical exceptions found the will be reported in their entirety to the Governance and Audits and Standards Committee along with Director's comments

8. 2019/20 Audits completed to date (30th June 2020)

Community & Hospital Based Assessments -Director of Adult Social Care

Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 0 | 1 | 0 |

Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by July 2020

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | Assurance |
| Compliance with Policies, Laws & Regulations | Reasonable Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Assurance |
| Reliability and Integrity of Data | NAT |

One medium risk exception has been raised due to there being, no formal protocol in place between QA Hospital and PCC as required by the Care Act.

Council Tax and NNDR - Director of Finance and Recourses

Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 0 | 1 | 0 |

Overall Assurance Level

Assurance

Agreed actions are ongoing

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | NAT |
| Compliance with Policies, Laws & Regulations | Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | NAT |

One medium risk exception has been raised in relation to the completion of mandatory training.

Accounts Receivable - Director of Finance and Recourses
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 0 | 1 | 0 |

Overall Assurance Level

| |
|------------------|
| Assurance |
|------------------|

Agreed actions are scheduled to be implemented by March 2020

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | NAT |
| Compliance with Policies, Laws & Regulations | Reasonable Assurance |
| Safeguarding of Assets | Assurance |
| Effectiveness and Efficiency of Operations | Assurance |
| Reliability and Integrity of Data | Assurance |

One medium risk exception has been raised due to 4/25 of invoices tested not being supported by reliable documentation.

Accounts Payable - Director of Finance and Recourses
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 1 | 1 | 1 |

Overall Assurance Level

| |
|-----------------------------|
| Reasonable Assurance |
|-----------------------------|

Agreed actions are scheduled to be implemented by April 2020

Assurance Level by Scope Area

| | |
|--|-----------|
| Achievement of Strategic Objectives | NAT |
| Compliance with Policies, Laws & Regulations | Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Assurance |
| Reliability and Integrity of Data | NAT |

One high risk exception was raised in relation to payments not being compliant with the prompt payment policy. The medium exception raised covers, a lack of purchase order submitted for 11% of those tested. One low risk exceptions were also raised as a result of this review.

Payroll / Pension - Director of Finance and Recourses
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 0 | 3 | 0 |

Overall Assurance Level
Reasonable Assurance

Agreed actions are scheduled to be implemented depending on COVID-19 lockdown easement progresses.

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | NAT |
| Compliance with Policies, Laws & Regulations | Reasonable Assurance |
| Safeguarding of Assets | Reasonable Assurance |
| Effectiveness and Efficiency of Operations | NAT |
| Reliability and Integrity of Data | NAT |

Three medium risk exceptions were raised in relation to the Additional and Exceptional Duty Policy being out of date, late notification (leavers/ contractual changes) resulting in overpayments (14/25 56%) at a value of £16,400 and employees being placed on the wrong National Insurance contribution codes.

Emergency Procedure - Director of Housing, Neighbourhood and Building Services
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 3 | 0 | 0 |

Overall Assurance Level
Limited Assurance

Agreed actions are scheduled to be implemented by September 2020

Assurance Level by Scope Area

| | |
|--|-------------------|
| Achievement of Strategic Objectives | Assurance |
| Compliance with Policies, Laws & Regulations | Limited Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Limited Assurance |
| Reliability and Integrity of Data | NAT |

Three high risk exceptions were raised as result of this review. The high risks cover insufficient evidence to confirm that the expected checks have been carried out, failure to retain fire related documents (i.e. inspection, equipment checks, drills and incidents) and lastly failure to record fire related incidents for further analysis.

Rents and Charges - Director of Housing, Neighbourhood and Building Services
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 0 | 3 | 0 |

Overall Assurance Level
Reasonable Assurance

Agreed actions are scheduled to be implemented by September 2020

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | NAT |
| Compliance with Policies, Laws & Regulations | Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | Assurance |

Three medium risk exceptions were raised in relation to source of approval for the pre-determined authorisation levels for credits, an outstanding former tenancy arrear that had not been chased since September 2018 and a rent account with a large credit balance since October 2019.

Apprenticeship Levy - Director of Corporate Services
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 1 | 4 | 1 |

Overall Assurance Level
Reasonable Assurance

Agreed actions are scheduled to be implemented by April 2020

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | NAT |
| Compliance with Policies, Laws & Regulations | Reasonable Assurance |
| Safeguarding of Assets | Limited Assurance |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | NAT |

One high risk exception was raised in relation to apprenticeship agreements not being signed. Four medium lack of risk exceptions were also raised covering; a lack of published workforce strategy, non-compliance with the PCC Procurement Rules, inefficient monitoring on payments from training providers and non-compliance with the 'Meeting the Public Sector Apprenticeship Target' statutory guidelines as no required figures in relation to the employment of apprentices are published.

IT Procurement and Inventory - Director of Corporate Services
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 2 | 2 | 1 |

Overall Assurance Level
Limited Assurance

Agreed actions are scheduled to be implemented by September 2020

Assurance Level by Scope Area

| | |
|--|-------------------|
| Achievement of Strategic Objectives | NAT |
| Compliance with Policies, Laws & Regulations | Limited Assurance |
| Safeguarding of Assets | Limited Assurance |
| Effectiveness and Efficiency of Operations | Assurance |
| Reliability and Integrity of Data | NAT |

Two high risk exceptions were raised in relation to 1) missing IT stock (£7,131.20) 2) relates to inaccurate inventory records for IT equipment (4/10 items were not in the noted location). Two medium were also raised, one relating to accuracy and quality of data recorded and the second related to effective contract management and KPI evidencing. One low risk exception was also raised as part of this review.

Modern Slavery - Executive
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 1 | 4 | 0 |

Overall Assurance Level
Limited Assurance

Agreed actions are scheduled to be implemented by June 2020

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | NAT |
| Compliance with Policies, Laws & Regulations | Limited Assurance |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | NAT |

One high risk exception has been raised as there is no evidence of Modern Slavery risks being considered across all directorates (excluding Adult Social Care) and suppliers. The four medium risk exceptions, cover, lack of policy documentation within one directorate, lack of appropriate training for key areas across the council, lack of KPI inclusion specific to modern slavery and finally, non-compliance with required Act statements.

Incomes Due - Director Of Port

Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 0 | 3 | 0 |

Overall Assurance Level

| |
|-----------------------------|
| Reasonable Assurance |
|-----------------------------|

Agreed actions are scheduled to be implemented pending on the recruitment of the Finance Director.

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | NAT |
| Compliance with Policies, Laws & Regulations | NAT |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | Reasonable Assurance |

Three medium risk exceptions have been raised as a result of the review. These cover, failure to ensure that the correct Pallet Equivalent Unit rate has been applied to all types of freight carried, failure to ensure that the system in place at Portico Shipping Ltd for accurately recording and accounting for the Pallet Equivalent Unit is efficient and effective and failure to ensure that the information provided to the Port matches the information in the shipping company financial systems.

Accounts Payable - Portico

Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 2 | 1 | 0 |

Overall Assurance Level

| |
|--------------------------|
| Limited Assurance |
|--------------------------|

Agreed actions are scheduled to be implemented by June 2020.

Assurance Level by Scope Area

| | |
|--|-------------------|
| Achievement of Strategic Objectives | Assurance |
| Compliance with Policies, Laws & Regulations | Limited Assurance |
| Safeguarding of Assets | Limited Assurance |
| Effectiveness and Efficiency of Operations | Assurance |
| Reliability and Integrity of Data | NAT |

Two high risk exceptions were raised in relation to failure to process purchase orders within the agreed process and it was not possible to determine access levels to the main finance system. One medium risk exception was also raised as a result of this review, this is due to 10/15 invoices not having sufficient delivery notes.

Disaster Recovery - Portico
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 0 | 3 | 1 |

Overall Assurance Level

| |
|----------------------|
| Reasonable Assurance |
|----------------------|

Agreed actions are scheduled to be implemented by December 2020

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | Reasonable Assurance |
| Compliance with Policies, Laws & Regulations | NAT |
| Safeguarding of Assets | NAT |
| Effectiveness and Efficiency of Operations | Reasonable Assurance |
| Reliability and Integrity of Data | Assurance |

Three medium risk exceptions have been raised as a result of the review. The risks cover the lack of a documented disaster recovery plan, no evidence of a testing schedule for all areas of disaster recovery and business continuity arrangements and a lack of staff training in the event of a disaster. One low risk exception was also raised as a result of this review.

Schools (Fernhurst) - External
Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 0 | 1 | 0 |

Overall Assurance Level

| |
|-----------|
| Assurance |
|-----------|

Agreed actions are ongoing actions

Assurance Level by Scope Area

| | |
|--|----------------------|
| Achievement of Strategic Objectives | Assurance |
| Compliance with Policies, Laws & Regulations | Reasonable Assurance |
| Safeguarding of Assets | Assurance |
| Effectiveness and Efficiency of Operations | Assurance |
| Reliability and Integrity of Data | NAT |

One medium risk exception was raised due to non-compliance with VAT regulations on Purchase Card transactions (1/25).

Troubled Families Grant - Director of Children Social Care

Grant Verification - Testing was able to evidence sufficient capital expenditure to allow the Chief Internal Auditor to sign the declaration confirming the grant conditions had been complied with.

Direct Payment Case (Bespoke work item) - Director of Finance and Recourses

A preliminary review was performed for a specific case, the results of which identify potential gaps in processes that require a full system review which has been included in the 2020/21 audit plan.

CCTV - Portico

The Surveillance Camera Code of Practice provides 12 guiding principles for organisations to work to in order to manage their CCTV processes. The guidance provides organisations with a check list of questions to align working practices when using CCTV. Review of these against the CCTV operations at Portico was completed to establish if working practices being undertaken are done so in accordance with these principles, or alternatively, in a way that meets the strict requirements of the Data Protection Act and General Data Protection Regulation. In conclusion, audit can give reasonable assurance that current practices and processes in place are mitigating the organisations risk exposure.

Parking Permits (Bespoke work item) - Director of Regeneration

Concerns were raised to Internal Audit about the use of counterfeit parking permits being used in two specific car parks. As a result of this Internal Audit undertook a number of surveys, reviewing the cars parked, inspecting the permits, noting down the registration numbers and comparing them to the list of permit holders. As a result virtual permits were to be introduced from April 2020 to allow for better enforcement and for the second car park enhanced arrangements are being considered in order that a contractor can effectively demonstrate appropriate usage.

Strategic Project Management - Director of Regeneration

Three medium risk exceptions have been raised as a result of audit testing. Testing was limited on the project management framework as the process is not yet complete and no project has proceeded beyond feasibility stage, under the new process. It is therefore difficult to give an overall assessment while parts of the process are not complete and delivery against this has not been achieved due to the timing of the review and the project statuses. Internal Audit planned to carry out a further review as part of the 2020/21 audit plan in order to give a final overall opinion on the effectiveness of the strategic project management framework, however this position has been impacted by COVID 19 and any further audit work will be suspended.

9. Follow-up Action Categorisation

The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

| Follow Up Categories | Description |
|---------------------------------|--|
| Open | <i>No action has been taken on agreed action.</i> |
| Pending | <i>Actions cannot be taken at the current time but steps have been taken to prepare.</i> |
| In Progress | <i>Progress has been made on the agreed action however they have not been completed.</i> |
| Implemented but not Effective | <i>Agreed action implemented but not effective in mitigating the risk.</i> |
| Closed: Verified | <i>Agreed action implemented and risk mitigated, verified by follow up testing.</i> |
| Closed: Not Verified | <i>Client has stated action has been completed but unable to verify via testing.</i> |
| Closed: Management Accepts Risk | <i>Management has accepted the risk highlighted from the exception.</i> |
| Closed: No Longer Applicable | <i>Risk exposure no longer applicable.</i> |

10. 2019/20 Follow-up Audits to date (30th June 2020)

Fostering Services - Director of Children Social Care

Original Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 1 | 0 | 1 |

Latest implementation date scheduled during the original audit was in October 2019.

Original Assurance Level

Reasonable Assurance

Follow-up Assurance Level

Reasonable Assurance

Follow Up Action

| Open | Pending | In Progress | Implemented but Not Effective | Closed: Verified | Closed: Not Verified | Closed: Management Accepts Risks | Closed: No Longer Applicable |
|----------|---------|-------------|-------------------------------|------------------|----------------------|----------------------------------|------------------------------|
| 1 (High) | 0 | 1 (Low) | 0 | 0 | 0 | 0 | 0 |

Follow up testing confirmed that the low risk is in progress due to a change of implementation date for the new system. The high risk has not progressed and is open as at the time of testing. This exception relates to late completion of annual reviews, which has been impacted by an Ofsted inspection. The revised implementation date is March 2020.

Youth Offending Team - Director of Children Social Care

Original Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 2 | 1 | 1 |

Latest implementation date scheduled during the original audit was in July 2019.

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Limited Assurance

Follow Up Action

| Open | Pending | In Progress | Implemented but Not Effective | Closed: Verified | Closed: Not Verified | Closed: Management Accepts Risks | Closed: No Longer Applicable |
|------|---------|-------------|-------------------------------|------------------|----------------------|----------------------------------|------------------------------|
| 0 | 0 | 2 (High) | 1 (Medium) | 1 (Low) | 0 | 0 | 0 |

Follow up testing confirmed the medium risk exception has been implemented; however not effective, new actions have now been agreed. The low risk exception has been closed and verified. Two high risk exceptions remain in progress and relate to the timescale for completing a risk assessment and the lack of evidence of warning letters being issued. The revised implementation date is April 2020.

Freedom of Information - Director of Corporate Services
Original Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 1 | 2 | 0 |

Latest implementation date scheduled during the original audit was in August 2019

Original Assurance Level

| |
|----------------------|
| Reasonable Assurance |
|----------------------|

Follow-up Assurance Level

| |
|----------------------|
| Reasonable Assurance |
|----------------------|

Follow Up Action

| Open | Pending | In Progress | Implemented but Not Effective | Closed: Verified | Closed: Not Verified | Closed: Management Accepts Risks | Closed: No Longer Applicable |
|------|---------|-------------|-------------------------------|------------------------|----------------------|----------------------------------|------------------------------|
| 0) | 0 | 1 (Medium) | 0 | 1 (High) 1 (Medium) | 0 | 0 | 0 |

Follow up testing has confirmed one high and one medium risk exception has now been closed and verified. One medium risk exception remains in progress, this relates to failure to respond to requests within the required timescale. The revised implementation date is June 2020.

Budget Monitoring - Portico
Original Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 2 | 1 | 1 |

Latest implementation date scheduled during the original audit was in August 2019.

Original Assurance Level

| |
|-------------------|
| Limited Assurance |
|-------------------|

Follow-up Assurance Level

| |
|-------------------|
| Limited Assurance |
|-------------------|

Follow Up Action

| Open | Pending | In Progress | Implemented but Not Effective | Closed: Verified | Closed: Not Verified | Closed: Management Accepts Risks | Closed: No Longer Applicable |
|------|---------|---------------------|-------------------------------|------------------|----------------------|----------------------------------|------------------------------|
| 0 | 0 | 2 (High) 1 (Low) | 0 | 0 | 1 (Medium) | 0 | 0 |

Follow up testing has confirmed that one medium risk has been closed and not verified. Two high and one low remain in progress, the high risks are in relation to inadequate monitoring and control arrangements in place and responsibilities not clearly defined. The revised implementation includes monthly reviews.

GDPR - Portico
Original Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 1 | 1 | 0 |

Latest implementation date scheduled during the original audit was in May 2019.

Original Assurance Level

| |
|-------------------|
| Limited Assurance |
|-------------------|

Follow-up Assurance Level

| |
|----------------------|
| Reasonable Assurance |
|----------------------|

Follow Up Action

| Open | Pending | In Progress | Implemented but Not Effective | Closed: Verified | Closed: Not Verified | Closed: Management Accepts Risks | Closed: No Longer Applicable |
|------|---------|-------------|-------------------------------|------------------|----------------------|----------------------------------|------------------------------|
| 0 | 0 | 1 (Medium) | 0 | 1 (High) | 0 | 0 | 0 |

Follow up testing has confirmed that one high risk exception has now been closed and verified. One medium risk exception remains in progress, this relates to the annual monitoring of compliance with GDPR. The revised implementation date is March 2020.

Health and Safety - Portico
Original Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 2 | 1 | 0 |

Latest implementation date scheduled during the original audit was in January 2020

Original Assurance Level

| |
|-------------------|
| Limited Assurance |
|-------------------|

Follow-up Assurance Level

| |
|----------------------|
| Reasonable Assurance |
|----------------------|

Follow Up Action

| Open | Pending | In Progress | Implemented but Not Effective | Closed: Verified | Closed: Not Verified | Closed: Management Accepts Risks | Closed: No Longer Applicable |
|------|---------|-------------|-------------------------------|------------------------|----------------------|----------------------------------|------------------------------|
| 0 | 0 | 1 (High) | 0 | 1 (High) 1 (Medium) | 0 | 0 | 0 |

Follow up testing has confirmed one high and one medium risk exception has now been closed and verified. One high risk exception remains in progress, this relates to the completion of mandatory training. The revised implementation is an ongoing action.

CCTV - Director of Port
Original Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 4 | 0 | 0 |

Latest implementation date scheduled during the original audit was in October 2019

Original Assurance Level

| |
|--------------|
| No Assurance |
|--------------|

Follow-up Assurance Level

| |
|-------------------|
| Limited Assurance |
|-------------------|

Follow Up Action

| Open | Pending | In Progress | Implemented but Not Effective | Closed: Verified | Closed: Not Verified | Closed: Management Accepts Risks | Closed: No Longer Applicable |
|----------|---------|-------------|-------------------------------|------------------|----------------------|----------------------------------|------------------------------|
| 2 (High) | 0 | 0 | 0 | 2 (High) | 0 | 0 | 0 |

Further details can be found within section 5 of this report.

IT Security, Email, back-ups - Director of Port
Original Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 3 | 0 | 0 |

Latest implementation date scheduled during the original audit was in December 2019

Original Assurance Level

| |
|-------------------|
| Limited Assurance |
|-------------------|

Follow-up Assurance Level

| |
|-------------------|
| Limited Assurance |
|-------------------|

Follow Up Action

| Open | Pending | In Progress | Implemented but Not Effective | Closed: Verified | Closed: Not Verified | Closed: Management Accepts Risks | Closed: No Longer Applicable |
|----------|---------|-------------|-------------------------------|------------------|----------------------|----------------------------------|------------------------------|
| 2 (High) | 0 | 0 | 0 | 1 (High) | 0 | 0 | 0 |

Follow up testing has confirmed that one high risk exceptions has now been closed and verified. Two high risk exceptions remain open, this relates to the completion of mandatory training and the updates of the Port's systems. The reviewed implementation date is July 2020.

Maintenance - Director of Port
Original Exceptions Raised

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 2 | 1 | 0 |

Latest implementation date scheduled during the original audit was in May 2019

Original Assurance Level

| |
|-------------------|
| Limited Assurance |
|-------------------|

Follow-up Assurance Level

| |
|-----------|
| Assurance |
|-----------|

Follow Up Action

| Open | Pending | In Progress | Implemented but Not Effective | Closed: Verified | Closed: Not Verified | Closed: Management Accepts Risks | Closed: No Longer Applicable |
|------|---------|-------------|-------------------------------|------------------------|----------------------|----------------------------------|------------------------------|
| 0 | 0 | 0 | 0 | 1 (High) 1 (Medium) | 0 | 1 (High) | 0 |

Follow up testing has confirmed that one high and one medium risk exception has been closed. One high risk exception has been closed.

11. Audits in Draft to date (3rd July 2020)

| Audit | Directorate | Draft Since | Projected Issue Date | Revised | Comments |
|-------|-------------|-------------|----------------------|---------|----------|
| VESL | Executive | 25/03/2020 | | | |

12. Exceptions

Of the 2019/20 full audits completed, 139 exceptions have been raised.

| Risk | Total |
|------------------------|-------|
| Critical Risk | 1 |
| High Risk | 55 |
| Medium Risk | 71 |
| Low Risk - Improvement | 12 |

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Portsmouth

CITY COUNCIL

Portsmouth City Council Annual Audit Report 2019/20

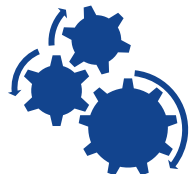
Elizabeth Goodwin, Chief Internal Auditor





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1. Background

Public Sector Internal Audit Standards

1.1 On 1st April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1st April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.

1.2 The *Accounts and Audit Regulations 2015 Section 5*, define the requirement for an internal audit function within local government, stating that:

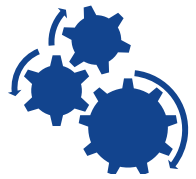
A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

1.3 The responsibility for maintaining an adequate and effective system of internal audit within Portsmouth City Council lies with the Director of Finance (Section 151 Officer).

1.4 The Chief Internal Auditor is responsible for effectively managing the internal audit activity, in accordance with the definition of internal auditing, the *Code of Ethics* and the *Standards*.

1.5 In accordance with the *PSIAS* the definition of internal auditing is:

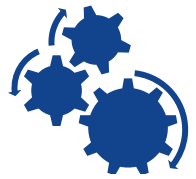
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes



- 1.6** In addition the Chief Internal Auditor will provide an Annual Internal Audit Opinion, based on an objective assessment of the Authority's framework of governance, risk management and control.
- 1.7** The Annual Internal Audit Opinion must incorporate:
- The Opinion;
 - A summary of the work that supports the Opinion; and
 - A statement on conformance with *PSIAS* and the results of the quality assurance and improvement programme.
- 1.8** An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2019/20 confirmed that the Portsmouth City Council's, Internal Audit Service is compliant with requirements.

Statement of Organisational Independence

- 1.9** The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It does however manage Insurance and provides advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.
- 1.10** The Chief Internal Auditor is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
- 1.11** The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer, the Leader of the Council and the Chair of the Governance and Audit and Standards Committee.



2. Annual Opinion for 2019/20

- 2.1** During 2019-20 Internal Audit & Counter Fraud completed 57 full audits and 31 follow up reviews to plan. The results show that the level of 'No Assurance' and 'Limited Assurance' audited areas have decreased from the previous year, which is a positive move and reinforces the judgement that the direction of travel is that of 'good improvement'.
- 2.2** This position is however countered by a residue issue, which has been highlighted over several years that the number of implemented actions, still remains poor, with only a 1% improvement from last year (Previously 40% actioned, increased to 41% for 2019/20). Although arrangements were amended and clients were given prior notice additional steps need to be enacted. Internal Audit will be conducting a second follow up on open/ in progress actions and, should inactivity remain, escalation to the Corporate Governance Board and individual directorates on a quarterly basis will occur.
- 2.3** Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance. Limited Assurance is provided again this year, with the above narrative that the internal control framework in operation at Portsmouth City Council is improving.

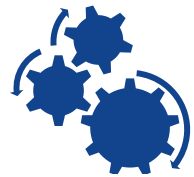
No Assurance

Limited Assurance

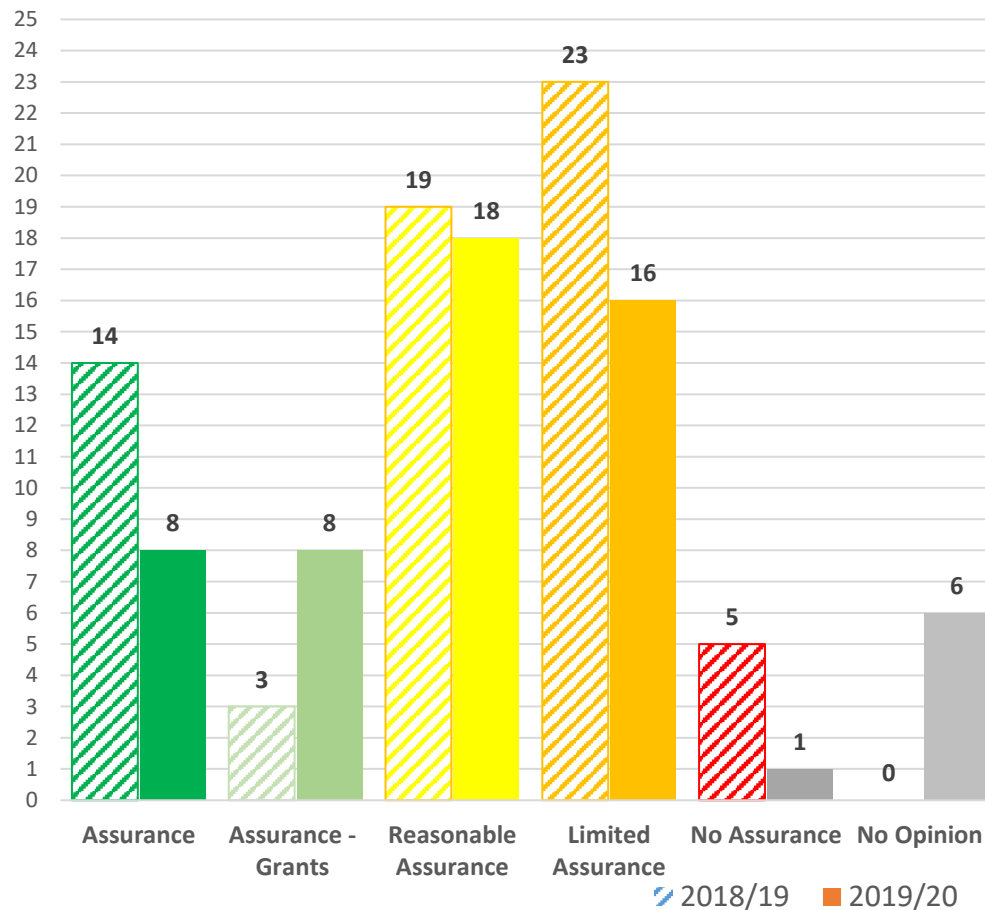
Reasonable Assurance

Full Assurance

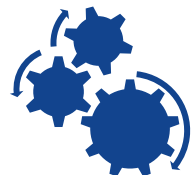
- 2.4** Any significant corporate weaknesses and agreed actions are reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2019/20 may affect that year's work for External Audit. It may also inform their work for 2020/21 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.



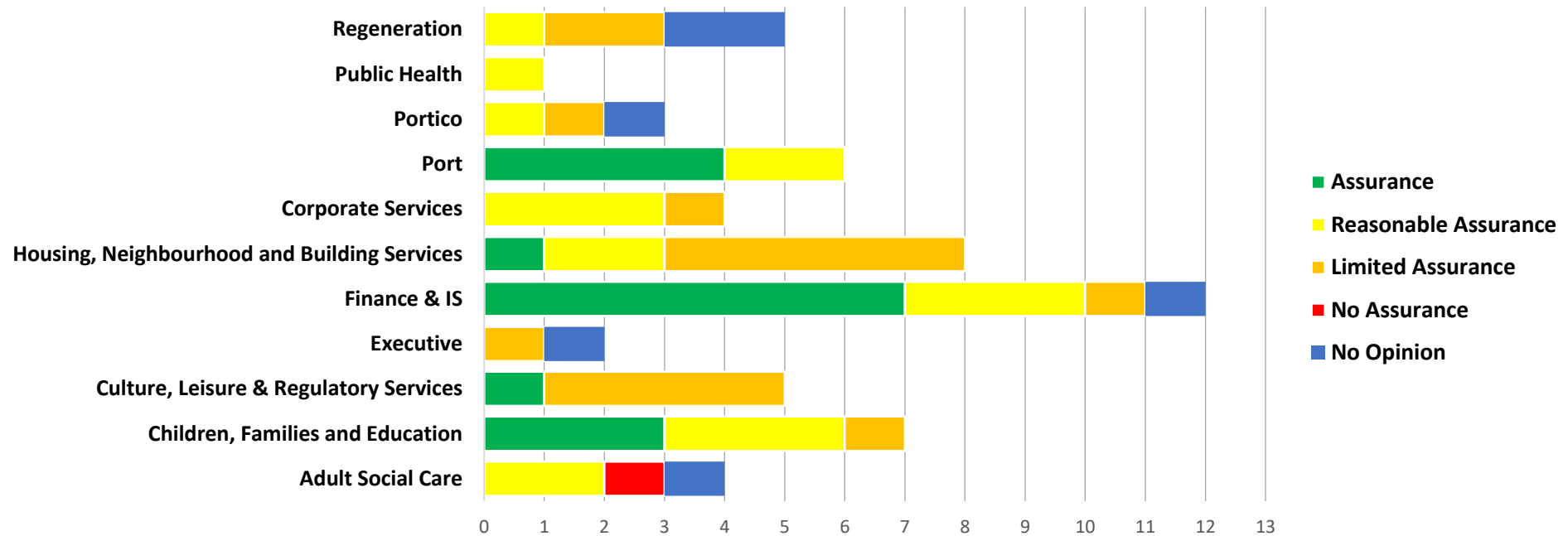
3. Comparative 2018/19 & 2019/20 Full Audit Assurance Levels



| | 2018/19 | 2019/20 | TOTAL |
|----------------------|-----------|-----------|------------|
| Assurance | 14 | 8 | 24 |
| Assurance - Grants | 3 | 8 | 9 |
| Reasonable Assurance | 19 | 18 | 37 |
| Limited Assurance | 23 | 16 | 39 |
| No Assurance | 5 | 1 | 6 |
| No Opinion | 0 | 6 | 4 |
| TOTAL | 64 | 57 | 121 |



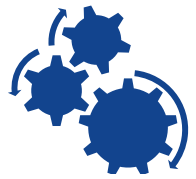
4. 2019/20 Full Audit Assurance by Directorate



| | Assurance | Reasonable Assurance | Limited Assurance | No Assurance | No Opinion | TOTAL |
|--|-----------|----------------------|-------------------|--------------|------------|-------|
| Adult Social Care | 0 | 2 | 0 | 1 | 1 | 4 |
| Children, Families and Education | 3 | 3 | 1 | 0 | 0 | 7 |
| Culture, Leisure & Regulatory Services | 1 | 0 | 4 | 0 | 0 | 5 |
| Executive | 0 | 0 | 1 | 0 | 1 | 2 |



| | | | | | | |
|--|-----------|-----------|-----------|----------|----------|-----------|
| Finance & IS | 7 | 3 | 1 | 0 | 1 | 12 |
| Housing, Neighbourhood and Building Services | 1 | 2 | 5 | 0 | 0 | 8 |
| Corporate Services | 0 | 3 | 1 | 0 | 0 | 4 |
| Port | 4 | 2 | 0 | 0 | 0 | 6 |
| Portico | 0 | 1 | 1 | 0 | 1 | 3 |
| Public Health | 0 | 1 | 0 | 0 | 0 | 1 |
| Regeneration | 0 | 1 | 2 | 0 | 2 | 5 |
| TOTAL | 16 | 18 | 16 | 1 | 6 | 57 |



5. Key Areas of Concern for 2019/20

5.1 The 'no assurance' audit noted above relates to the following area:

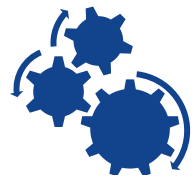
- **Deprivation of Liberties - Adult Social Care (this was reported to committee in March 2020)**

5.2 Follow up reviews to ascertain the current position for audits where one or more **high risk** exception was raised during 2019/20, including all of the areas summarised above, will be performed during 2020/21. Until this work is completed these will remain areas of concern.

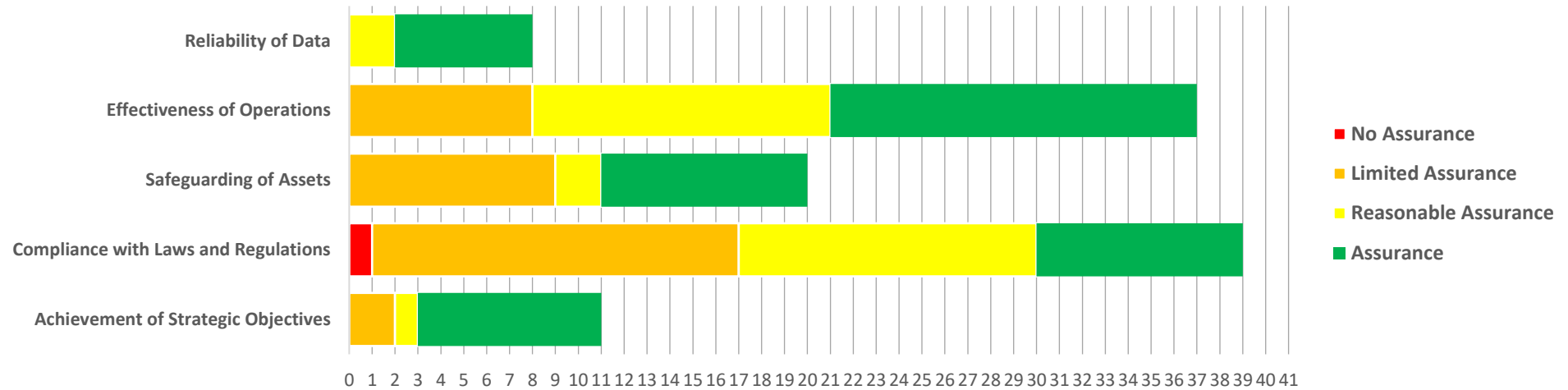
5.3 During 2019/20 Internal Audit carried out follow up reviews on all areas where 'no assurance' was provided under the 2018/19 audit plan. The results show the following movement.

- Community Centres (Housing, Neighbourhood and Building Services) - post follow up assurance level - **Reasonable Assurance** - This was reported to committee in March 2020.
- Gifts and Hospitality (Portico) - post follow up assurance level - **Limited Assurance** - This was reported to committee in March 2020.
- Hire Cars (Regeneration) - post follow up assurance level - **Limited Assurance** - This was reported to committee in March 2020.
- Home 2 School Transport (Regeneration) - post follow up assurance level - **Reasonable Assurance** - This was reported to committee in March 2020.
- CCTV (Port) - post follow up assurance - **Limited Assurance** - Further details can be found within the Internal Audit Progress Report July 2020.

5.4 Until actions are fully implemented assurance cannot be given that the underlying risks have been addressed. Due to this, in a change to usual practice, Internal Audit has scheduled additional follow-up activity during 2020/21, to revisit open actions from 2018/19 audits.

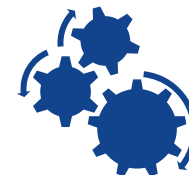


6. 2019/20 Assurance Analysis by Risk Classification

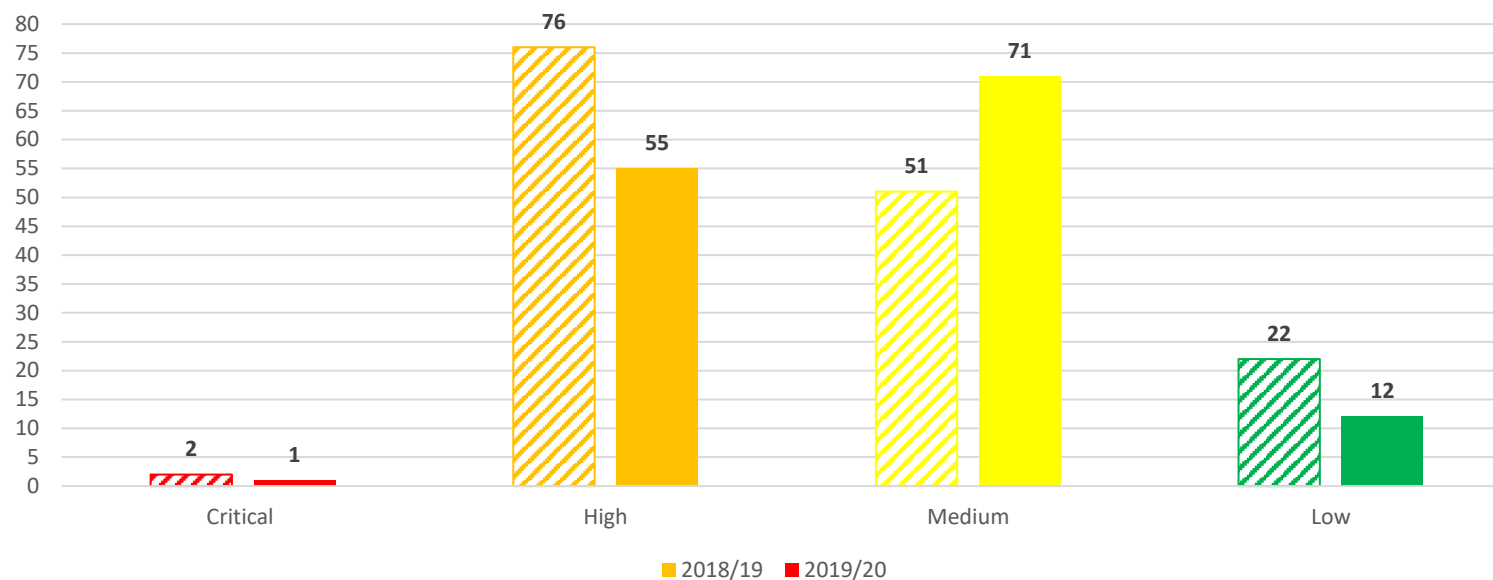


| | No Assurance | Limited Assurance | Reasonable Assurance | Assurance | TOTAL |
|--------------------------------------|--------------|-------------------|----------------------|-----------|-------|
| Achievement of Strategic Objectives | 0 | 2 | 1 | 8 | 11 |
| Compliance with Laws and Regulations | 1 | 16 | 13 | 9 | 39 |
| Safeguarding of Assets | 0 | 9 | 2 | 9 | 20 |
| Effectiveness of Operations | 0 | 8 | 13 | 16 | 37 |
| Reliability of Data | 0 | 0 | 2 | 6 | 8 |
| TOTAL | 1 | 35 | 31 | 48 | |

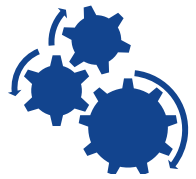
Note: not all audits assess all risk classifications; information on this page is limited to where audits assign an assurance rating to a risk classification.



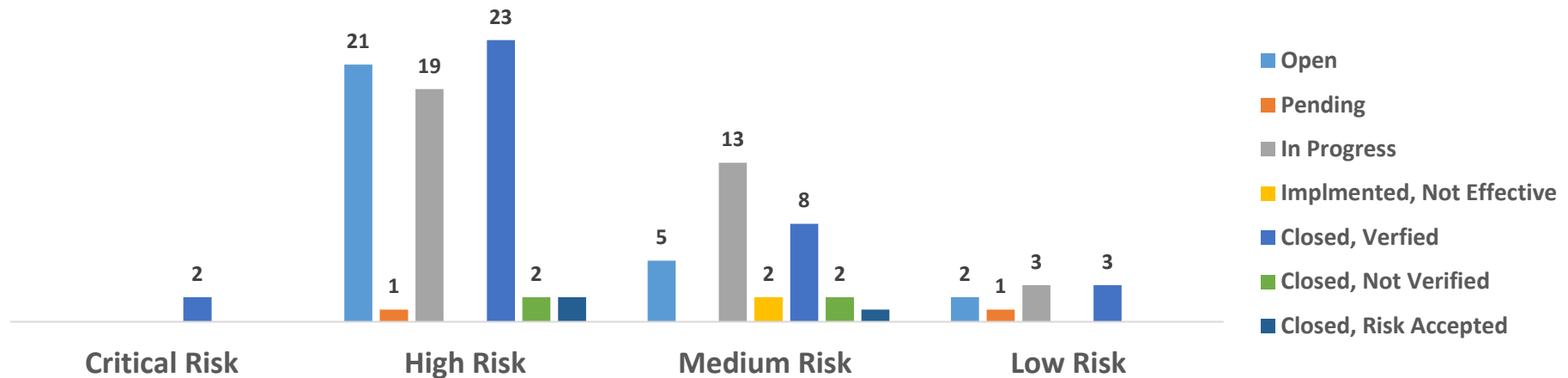
7. Comparative 2018/19 & 2019/20 Exception Risk Rankings



| | 2018/19 | 2019/20 | TOTAL |
|---------------|---------|---------|-------|
| Critical Risk | 2 | 1 | 3 |
| High Risk | 76 | 55 | 131 |
| Medium Risk | 51 | 71 | 122 |
| Low Risk | 22 | 12 | 34 |
| TOTAL | 151 | 139 | |

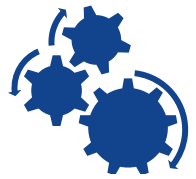


8. 2019/20 Follow Up Analysis



| | Open | Pending | In Progress | Implemented, Not Effective | Closed, Verified | Closed, Not Verified | Closed, Risk Accepted | TOTAL |
|---------------|-----------|----------|-------------|----------------------------|------------------|----------------------|-----------------------|------------|
| Critical Risk | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 2 |
| High Risk | 21 | 1 | 19 | 0 | 23 | 2 | 2 | 68 |
| Medium Risk | 5 | 0 | 13 | 2 | 8 | 2 | 1 | 31 |
| Low Risk | 2 | 1 | 3 | 0 | 3 | 0 | 0 | 9 |
| TOTAL | 28 | 2 | 35 | 2 | 36 | 4 | 3 | 110 |

Internal Audit follows up exceptions where at least one high risk exception has been raised. Exceptions are followed up in the next financial year, to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within three months due to the potential severity of the risks identified. The overall position of the exceptions followed up in 2019/20 show that 41% have been closed and verified by audit, however 59% remain open, pending and or are in progress.



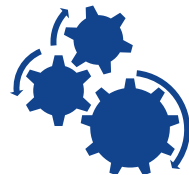
9. Data Analytics / Continuous Auditing

9.1 IDEA data analytics was used extensively throughout the 2019/20 financial year in order to aid Internal Audit & Counter Fraud use resources efficiency. These include:

- Continuous Auditing
- Audit Testing
- Audit Sampling
- Fraud Testing
- Data Analysis

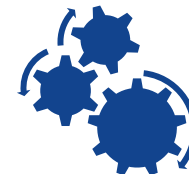
9.2 Across all audits, including external clients, IDEA is considered and where appropriate utilised. Examples of where IDEA was used include:

- Accounts Payable - Duplicate payments - run weekly.
- Random Sampling / Stratified Random Sampling
- Analysis on contract data - i.e. price and dates
- Comparison of training records to current employees.
- Comparison of Fleet vehicles to vehicles insured by PCC - to ensure all vehicles are insured
- iExpenses - To highlight (Spilt mileage claims/ split subsistence claims / claims non-compliant with the Travel and Subsistence Policy)
- Purchase Cards - To highlight (Split transactions / transactions over the limit / and transactions non-compliant with the purchasing cards policy)
- Multiple PDF reports converted to excel
- Payroll automation to highlight apprentices on the wrong NI code (comparison of apprenticeship data to an all employees report)
- Analysis of daily revenue, identifying dates where takings were outside of the normal parameters, correct calculation of VAT on prices for coffee shops.
- Data match of cars parked in specific location to identify cars without a permit



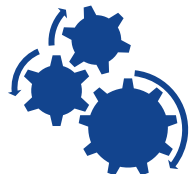
9.3 Internal Audit has also created a continuous auditing process in relation to the identification of potential duplicate payments at PCC. A series of 6 tests are run on a weekly basis on all invoices within the EBS system. Non validated invoices would not be paid until validation occurred therefore the risk of the duplicate payment being made is lower than those invoices which have been validated. The Accounts Payable team have now out-sourced to an external supplier 'AP Fiscals' for the identification of potential duplicate payments at PCC from March 2020. From April 1st 2019 to 3rd March 2020, the tests identified the following:

| Row Labels | Sum of Amount |
|--|---------------|
| Non Validated Duplicate Invoice Value | £164,927.25 |
| Validated Duplicate Invoice Value | £89,236.88 |
| Grand Total of the value of the duplicate invoices found | £254,164.13 |



10. Unplanned Reactive Work

- 10.1** Throughout the financial year 2019/20, Internal Audit conducted 6 corporate investigations and received 115 investigation referrals relating to Council Tax Support, Right to Buy, Tenancy Fraud and Single Person Discount. Further details of all closed cases will be reported to this committee at the September 2020 meeting.
- 10.2** Internal Audit also provided services across the council with 24 items of advice were provided. Advice is recorded if the time spent to conduct the required work exceeds 1 hour of officer time.



11. External Client Analysis and Performance

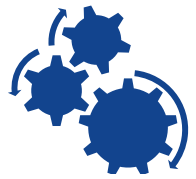
11.1 The Internal Audit & Counter Fraud service at Portsmouth City Council have maintained the contracts in place for the provision of Internal Audit & Counter Fraud duties with a number of external clients as noted below. These arrangements are to cover, audit, investigations & National Fraud Initiative work and where applicable the role of the Chief Internal Auditor.

11.2 External Client Base for 2019/20

- Southampton City Council
- Fareham Borough Council
- Solent Local Enterprise Partnership
- Gosport Borough Council
- Various PCC Schools
- Isle of Wight Council
- Langstone Harbour Board

11.3 Chief Internal Auditor role is covered for the following organisations;

- Portsmouth City Council
- Southampton City Council
- Isle of Wight Council
- Solent Local Enterprise Partnership
- Gosport Borough Council (November 2018 to date)



12. Quality Assurance

12.1 As part of the *Public Sector Internal Audit Standards* the Chief Internal Auditor is required to maintain a quality assurance and improvement programme (QA&IP) that covers all aspects of the internal audit activity. This QA&IP must include both internal and external assessments, which are detailed below under section 10.

12.2 In addition to this, quality and improvement requirements are assessed by means of:

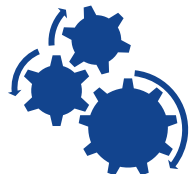
- a. Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- b. Weekly or bi-weekly 1:1s with all members of staff, within Internal Audit and colleagues who undertake Counter Fraud activities.
- c. Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supporting by in-house provisions and mentoring.
- d. All staff above Auditor level are required to undertake professional training or have achieved an education level of degree or above. For those that have completed professional studies as part of their professional body membership, much complete the required Continuous Professional Development
- e. An annual skills gap analysis across the team, (this includes the wider team) to determine specific potential shortages or gaps. Whilst no major gaps are noted at present, historical gaps in areas such as project auditing, contract auditing and IT auditing have been identified following the departure of employees (including retirement). These shortfalls have been addressed by specified recruitment, bespoke training or if required short term, by means of additional sign off/ mentoring of staff. Areas requiring improvement for this year's assessments are noted below, Skills Gap Analysis Results (12.3).
- f. All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- g. Director feedback will be requested during 2020/21 in order to ascertain whether the service provided complies with *PSIAS*.



Skills Gap Analysis for 2019/20

12.3 Essential Areas: where greater coverage of skills is needed moving forward:

- *Auditing, Specialist IT Auditing skills:* these are limited within the overall service with only two officers currently qualified. To address this shortfall, professional training will continue for a third officer and use will also be made of resources employed elsewhere under the various partnerships and shared service arrangements.



13. Public Sector Internal Audit Standards

Introduction

- 13.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards)* *Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, which for Portsmouth City Council has been carried out each year since the standards were introduced. The results of the self-assessments have been communicated annual alongside the annual audit opinion to this committee.
- 13.2** *Standard 1312* requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Standards state that a qualified assessor demonstrates competence in two areas; the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. An independent assessor means not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. During 2017/18 an external assessment was undertaken on Portsmouth City Council's Internal Audit & Counter Fraud Service.

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Agenda Item 10

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)



Portsmouth
CITY COUNCIL

| | |
|--------------------------|--|
| Title of meeting: | Governance & Audit & Standards Committee |
| Subject: | Criminal Finance Act 2017 - Tax Evasion Policy |
| Date of meeting: | 24 th July 2020 |
| Report by: | Elizabeth Goodwin, Chief Internal Auditor |
| Wards affected: | All |

1. Summary

- 1.1 This Policy has been introduced to set out details of the new Corporate Criminal Offences in relation to the failure to prevent Tax Evasion under the Criminal Finance Act 2017.

2. Purpose of report

- 2.1 To inform members of the requirements placed upon the council in relation to the legislation as set out in the Criminal Finance Act 2017 with regards to Tax Evasion.

3. Background

- 3.1 The Government has stated that councils should be criminally liable where they fail to prevent those who act for or on their behalf from criminally facilitating tax evasion.
- 3.2 The new offence does not fundamentally alter what is criminal; it simply focuses on who is to be held accountable for acts contrary to the current law.
- 3.3 The new offence focuses on the failure to prevent the crimes and those who act for or on behalf of a corporation, rather than trying to attribute acts to the corporation.
- 3.4 The new legislation in relation to Corporate Tax Evasions is laid out in the Criminal Finance Act 2017 ("CFA 2017"). This new act came into force on the 30th September 2017:-
Part 3 CFA 2017 creates two separate corporate offences:

- Failure to prevent facilitation of UK tax evasion and;
- Failure to prevent facilitation of overseas tax evasion:

THIS ITEM IS FOR INFORMATION ONLY
(Please note that "Information Only" reports do not
require Integrated Impact Assessments, Legal or
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Portsmouth
CITY COUNCIL

- 3.5 The Council would be guilty of an offence if a person commits a UK tax evasion facilitation offence when acting in the capacity of a person associated with the Council.
- 3.6 Government guidance suggests that proportionate prevention measures should be taken based on an assessment that identifies the specific risks of the organisation
- 3.7 The attached policy (appendix A) outlines the Council's risk assessment and resulting actions with regards to Tax Evasion

.....
Signed by: Elizabeth Goodwin, Chief Internal Auditor

Appendices: APPENDIX A - Tax Evasion Policy

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 |
|--|---|
| 1 Criminal Finance Act 2017 | http://www.legislation.gov.uk/ukpga/2017/22/contents/enacted |
| 2 Tackling Tax Evasion - Government Guidance | https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/672231/Tackling-tax-evasion-corporate-offences.pdf |

Summary:

- *New Corporate Criminal Offences came into force on the 30th September 2017, this policy exists to assist staff to identify and prevent the facilitation of UK and overseas tax evasion.*

| | |
|---------------------------------------|--|
| Date of Issue | <i>July 2020</i> |
| Next Review Date | <i>July 2021</i> |
| Policy Owner | <i>Director of Finance</i> |
| Policy Author & Department | <i>Lorraine Lindsay Internal Audit & Counter Fraud</i> |
| Related Documents | <p>Criminal Finance act 2017 http://www.legislation.gov.uk/ukpga/2017/22/contents/enacted <i>Tackling Tax Evasion -Government Guidance</i> https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/672231/Tackling-tax-evasion-corporate-offences.pdf Bribery Act 2010 http://www.legislation.gov.uk/ukpga/2010/23/contents <i>The Facilitation of Tax Evasion Offences (Guidance About Prevention)</i> Regulations 2017 http://www.legislation.gov.uk/uksi/2017/876/made <i>Portsmouth city council policy hub: Financial Rules.</i> <i>Anti -Bribery and Corruption. Whistle Blowing. Code of Conduct</i> <i>Anti Money Laundering.</i></p> |
| Applicability | <i>All Portsmouth City Council</i> |
| Revision History | <i>V2</i> |

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| | |
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| 4. Prevention Procedures..... | 4 |
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| What is Tax avoidance? | |
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1 The Reason for Tax Evasion Policy

- 1.1** This Policy has been introduced to set out details of the new Corporate Criminal Offences in relation to the failure to prevent Tax Evasion under the Criminal Finance Act 2017.
- 1.2** The Council is required to take prevention measures to prevent tax evasion.

2 Legislation

- 2.1** The Government believes that councils should be criminally liable where they fail to prevent those who act for, or on their behalf from criminally facilitating tax evasion.
- 2.2** The new offence does not fundamentally alter what is criminal; it simply focuses on who is to be held accountable for acts contrary to the current law.
- 2.3** The new offence focusses on the failure to prevent the crimes and those who act for or on behalf of a corporation, rather than trying to attribute acts to the corporation.
- 2.4** The new legislation in relation to Corporate Tax Evasions is laid out in the Criminal Finance Act 2017 ("CFA 2017"). This new act came into force on the 30th September 2017:-.

Part 3 CFA 2017 creates two separate corporate offences:

- Failure to prevent facilitation of UK tax evasion and;
 - Failure to prevent facilitation of overseas tax evasion:
- 2.5** The Council would be guilty of an offence if a person commits a UK tax evasion facilitation offence when acting in the capacity of a person associated with the Council.

Under S45 (4) CFA 2017 a UK tax evasion offence is either of the following:

- (a) An offence of cheating the public revenue.
- (b) An offence under the law of any part of the United Kingdom consisting of being knowingly concerned in or taking steps with a view to, the fraudulent evasion of a tax.

Under s45 (5) CFA 2017 'UK tax evasion facilitation offence' means an offence under the law of any part of the United Kingdom consisting of:-

- (a) Being knowingly concerned in, or in taking steps with a view to, the fraudulent evasion of a tax of another person,
- (b) Aiding, abetting, counselling or procuring the commission of a UK tax evasion offence, or
- (c) Being involved in the commission of an offence consisting of being knowingly concerned in, or in taking steps with a view to, the fraudulent evasion of tax.

3. Who can be held accountable for Tax Evasion?

3.1 The Government guidance refers to both the 'Relevant body', namely (Portsmouth City Council) and 'persons acting as associates,' (any employee, agent or other person who performs services for on behalf of Portsmouth City Council). The associate person can be an individual or an incorporated body.

3.2 For Corporate offences to be committed a criminal offence must have been committed at the taxpayer level (stage one)

Stage one: The criminal tax evasion by a taxpayer (either an individual or a legal entity) under existing law.

3.3 It is a crime to deliberately and dishonestly facilitate the commission of revenue fraud or to assist a person to fraudulently evade tax. It is also a crime to aid and abet another person in committing a revenue fraud.

Stage two: The criminal facilitation of the tax evasion by an associated person of a relevant body.

3.4 Only a relevant body can commit the new offences. If an associate deliberately and dishonestly criminally facilitates a tax evasion offence whilst performing services for or on behalf of Portsmouth City Council, the Council is accountable, unless they could evidence that reasonable prevention procedures have been put in place to prevent its associated persons from committing tax evasion.

4. Prevention Procedures

4.1 Government guidance suggests the proportionate prevention measures should be taken based on an assessment that identifies the specific risks of the organisation.

4.2 The Government has set the same threshold for Tax Evasion prevention measures as those set for Bribery (under s7 of the Bribery Act 2010). i.e. When an offence has been committed, an organisation must be able to evidence that there have adequate procedures in place designed to prevent persons associated with Portsmouth City Council from undertaking such conduct.

- Risk assessment
- Proportionality of risk-based prevention procedures
- Top Level Commitment
- Due Diligence
- Communication (including training)
- Monitoring and review

4.3 The Council must ensure that their policies and procedures are up-to-date and that staff are made fully aware of their responsibility around the recognition and prevention of tax evasion. This will not only provide a safeguard against tax evasion but also enable the Council to evidence that prevention procedures are in place.

5. Definition

- 5.1 Tax evasion** is the non-payment or under-payment of taxes, usually resulting from making a false declaration or no declaration at all of taxes due to the relevant tax authorities, resulting in legal penalties (which may be civil or criminal) if the perpetrator of tax evasion is caught.
- 5.2 Tax avoidance** is seeking to minimize a tax bill without deliberate deception (which would be tax evasion) but contrary to the spirit of the law. It therefore involves the exploitation of loopholes and gaps in the tax and other legislation in ways not anticipated by the law.
- 5.3 Relevant Body** the Government guidance for the corporate offences of failure to prevent criminal facilitation of tax evasion, (1st September 2017) states that only a 'relevant body' can commit the new offences. This means that only incorporated bodies (typically companies but also includes the Council) and partnerships can commit the new offences, not individuals.
- 5.4** However, a relevant body can commit the new offences if a person acting in the capacity of a person associated with it criminally facilitates a tax evasion offence.
- 5.5** A person is associated with a relevant body if that person is an employee, agent or other person who performs services for or on behalf of the relevant body (such as sub-contractors).

6 Risk Assessment

- 6.1** It is unlikely that any one individual Council Officer would benefit individually from Tax Evasion. There would have to be collusion either with a supplier or another council employee for an individual to benefit. However, the Council's Audit Team will conduct regular compliance checks paying specific attention to areas of high risk and report back to the Governance & Audit & Standards Committee as part of its annual reporting on counter fraud activities.

7 Areas of Risk

- 7.1** The following examples are intended to illustrate situations in which a person (member of staff) or the Council could facilitate tax evasion. The examples noted are not an exhaustive list.
- 7.2 Value Added Tax (VAT)**

VAT paid to Non-registered suppliers - suppliers adding VAT to their invoices when they are not registered for VAT with the intention of not paying the tax over to HMRC. If the invoice is approved/paid by a Council employee without questioning the incorrect addition of VAT to the invoice, they could be facilitating tax evasion by the supplier. If the Council paid the invoice and

recovered the VAT from HMRC this would not be identified as a cost in anyone's budget so would be difficult to spot.

Paying fraudulent VAT only invoices - accepting and paying a VAT only invoice without checking that it is valid and relates to goods and services received by the Council could facilitate tax evasion by a supplier. VAT only invoices would not be identified as a cost against any budget as the money would be recovered from HMRC and could therefore go undetected.

Raising invoices to a customer - having supplied goods or services to Customer A, they then ask the service to raise the invoice to Customer B. The reason for this change could be because Customer A is not VAT registered and cannot recover VAT whereas Customer B is registered and can recover the VAT. This type of request could be an indicator of tax evasion and the reason for the request should be obtained and the change only made if it is clear that the reason is not in order to evade tax.

Supplies of goods or services to customers - at a customer's request, changing the description of the goods or services supplied from those that would be subject to VAT to something that does not attract VAT. The only reason for doing this would be so that the customer does not have to pay the correct VAT due. The employee would be facilitating tax evasion by complying with this request.

7.3 Construction Industry Scheme

Invoices received from suppliers could deliberately show a false breakdown of labour costs with the intention that a lower amount of tax will be deducted on the labour element, or no tax will be deducted at all.

A lack of understanding as to what comes within the scope of the scheme or the implications of not applying the scheme, could mean that the Council is committing a criminal offence as they have assisted a third party in criminal tax evasion.

7.4 PAYE - Income Tax /National Insurance

Failure to deduct the Tax and NI at the correct rate

A Manager agrees to allow a staff member to claim home to work travel through an expense claim, by describing it in such a way to avoid its correct identification. Knowing that this is against the Council's policy and with the intention to help the member of staff member to avoid paying the tax that is properly due.

The Manager is allowing the staff member to make false statement to evade paying tax and is therefore committing an offence of assisting criminal tax evasion.

Inappropriate use of Gift Vouchers

A member of staff is rewarded by way of a gift voucher over the HMRC trivial gift limit (currently £50). This could be seen to be a deliberate form of reward to avoid tax liabilities.

7.5 Off Payroll Working - IR35

Failure to identify workers/contractors that should be paid via the payroll.

A supplier wishes to be treated as a self-employed contractor so that payments to them are paid gross and they can evade paying the appropriate income tax and national insurance liabilities. A council officer helps the supplier by falsifying information on the Employment Status Questionnaire to obtain a self-employed status results.

By supplying false information in this way, the Council is committing a criminal offence as they have assisted a third party in criminal tax evasion.

7.6 Direct Payments (for Care & Support Services)

The Council makes payments to people who have been assessed as needing help from Social Services and who would like to arrange and pay for their own care and support, instead of receiving the support direct from the Council. The recipient of the direct payment then becomes responsible for deductions for Income Tax and National Insurance from payments made to personal assistants and declaring this to HMRC.

As part of the Council's duty to monitor the use of the direct payments awarded to individuals, staff carrying out the monitoring should ensure that deductions for Income Tax and National Insurance are being properly deducted and declared to HMRC. In the event that the payments are not being made the member of staff must raise this with their manager.

Failure to ensure deductions for Income Tax and National Insurance are paid means that the Council or member of staff is committing a criminal offence as they have assisted a third party in criminal tax evasion.

7.7 Grants

Failure to ensure that funding is used for its intended purposes.

The Council gives a grant to an organisation for a specific project or service which may include the employment of staff. Staff are paid without the appropriate deduction of Income Tax and National Insurance. No checks are made when the grant is applied for to ensure that the organisation has sufficient funds to meet the tax liabilities and no checks are made to ensure the grant funding is used properly and for the intended purpose.

If the organisation has deliberately evaded tax, the Council is committing a criminal offence as they have assisted a third party in criminal tax evasion.

7.8 These examples are intended to be illustrative and cannot cover every form of risk. Other risks could include:-

- Encouraging elderly/disabled clients or charities to self-certify to obtain VAT zero-rating for goods they receive when they do not qualify for the zero-rating.
- Negotiating with suppliers to make cash payments (using petty cash or similar) when purchasing goods or services.

8 Proportionality of risk-based prevention procedures.

8.1 The Council has a zero tolerance for anyone committing tax evasion and recognises its responsibility to prevent the facilitation of tax evasion. This is reflected in the governance process and procedures to address specific risks.

In addition the Audit Team incorporates a number of specific audits to identify various tax irregularities.

The Council has the following policies in place that all contribute to staff awareness and Governance:

- Financial Rules
- Anti-Bribery and Corruption.
- Whistle Blowing
- Code of Conduct
- Anti-Money Laundering

9 Due Diligence

9.1 Processes and Procedures are in place in relation to payment of invoices. Regular audits take place and additional caution is exercised when making payment to new suppliers.

10 Communication & Training

10.1 All staff should be made aware of the CFA 2017 via induction and part of mandatory training and information on the Council's intranet.

10.2 An online e-learning program is available which must be completed by all employees, agents and any other persons working for in or partnership with Portsmouth City Council.

10.3 The reporting process for anyone who may have concerns that either tax evasion or the facilitation of tax evasion offences may have been committed are as follows:-

Lorraine Lindsay telephone 023 92 84137 or
Lorraine.lindsay@secure.portsmouthcc.gov.uk or via the
Whistleblowing process [Whistleblowing@portsmouthcc.gov.uk](https://www.portsmouthcc.gov.uk/whistleblowing)

Alternatively;

Karen Thomas telephone 023 92 841633 or
Karen.Thomas@portsmouthcc.gov.uk

11. Monitoring and Reviews

- 11.1** Monitoring and reviews will form as part of the annual audit program of activities and annual reports will be presented back to the Governance & Audit & Standards Committee.

12. Top level Commitment.

- 12.1** The policy is supported by senior officers and endorsed by the Governance & Audit & Standards Committee.

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