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# NOTICE OF MEETING

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## GOVERNANCE & AUDIT & STANDARDS COMMITTEE

FRIDAY, 4 MARCH 2022 AT 2.00 PM

### COUNCIL CHAMBER - THE GUILDHALL

Telephone enquiries to James Harris on 023 9260 6065

Email: james.harris@portsmouthcc.gov.uk

If any member of the public wishing to attend the meeting has access requirements, please notify the contact named above.

#### Information with regard to public access due to Covid precautions

- Following the government announcement 'Living with COVID-19' made on 21<sup>st</sup> February attendees will still be requested to undertake an asymptomatic/ lateral flow test within 48 hours of the meeting until the end of March (This guidance will be updated at that point). Around one in three people who are infected with COVID-19 have no symptoms so could be spreading the virus without knowing it. Asymptomatic testing – getting tested when you don't have symptoms - helps protect people most at risk by helping to drive down transmission rates.
- We strongly recommend that attendees should be double vaccinated and have received a booster.
- If symptomatic we encourage you not to attend the meeting but to stay at home, avoid contact with other people and to take a PCR test in line with current UKHSA advice.
- We encourage all attendees to wear a face covering while moving around crowded areas of the Guildhall.
- Although not a legal requirement attendees are strongly encouraged to keep a social distance and take opportunities to prevent the spread of infection by following the 'hands, face, space' and 'catch it, kill it, bin it' advice that also protects us from other winter viruses.
- Hand sanitiser is provided at the entrance and throughout the Guildhall. All attendees are encouraged to make use of hand sanitiser on entry to the Guildhall.
- Those not participating in the meeting and wish to view proceedings are encouraged to do so remotely via the livestream link

## **Membership**

Councillor Leo Madden (Chair)  
Councillor Daniel Wemyss (Vice-Chair)  
Councillor Stuart Brown  
Councillor Charlotte Gerada  
Councillor Lee Hunt  
Councillor John Smith

## **Standing Deputies**

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

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(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](http://www.portsmouth.gov.uk)

**Deputations by members of the public may be made on any item where a decision is going to be taken. The request should be made in writing to the contact officer (above) by 12 noon of the working day before the meeting, and must include the purpose of the deputation (for example, for or against the recommendation/s). Email requests are accepted.**

## **AGENDA**

**1 Apologies for Absence**

**2 Declarations of Members' Interests**

**3 Minutes of Meeting held on 21 January 2022 (Pages 5 - 12)**

**RECOMMENDED that the minutes of the meeting held on 21 January 2022 be approved and signed by the Chair as a correct record.**

**4 External Audit - Auditors Annual Report: Year ended 31 March 2021**

Report to follow under separate cover.

Portsmouth City Council's Annual Audit report.

This item is for noting.

**5 Data Security Breach Report**

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

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

**6 Treasury Management Policy 2022/23 (Pages 13 - 48)**

The purpose of this report is to obtain the Council's approval of the updated Treasury Management Policy Statement (attached) which includes the Annual Investment Strategy. It is before this Committee for scrutiny and comment before going on to Cabinet and then to Full Council for approval.

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

**7 Internal Audit Performance Status Report to 15 February 2022 (Pages 49 - 68)**

The purpose of this report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2021/22 to 15 February 2022 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

**Recommended that:**

- (i) Members note the Audit Performance for 2021/22 to 15 February 2022; and**
- (ii) Members note the highlighted areas of concern in relation to audits completed from the 2021/22 Audit Plan, including follow up work performed.**

**8 Internal Audit Plan 2022/23 and Audit Charter, including Code of Ethics (Pages 69 - 98)**

The purpose of this report is to present the proposed Internal Audit Plan for 2022/23 to the committee for approval as set out in Appendix A and to present the updated Audit Charter and Code of Ethics as shown in Appendix B.

**Recommended that members approve:**

- (i) the proposed Internal Audit Plan for 2022/23 as set out in Appendix A; and**
- (ii) the updated Audit Charter and Code of Ethics as shown in Appendix B**

**9 Anti-Fraud, Bribery & Corruption Policy (Pages 99 - 106)**

The purpose of this report is to update members of this committee following a review of the Anti-fraud Bribery and Corruption Policy. There is one minor change relating to an amendment of Deputy Chief Executive and Monitoring Officer to Monitoring Officer.

**RECOMMENDED that Members of the Governance and Audit and Standards Committee note the Anti-Fraud Bribery & Corruption Policy, Appendix A, where there is one minor change relating to a job title amendment.**

Members of the public are permitted to use both audio visual recording devices and social media during this meeting, on the understanding that it neither disrupts the meeting nor records those stating explicitly that they do not wish to be recorded. Guidance on the use of devices at meetings open to the public is available on the Council's website and posters on the wall of the meeting's venue.

Whilst every effort will be made to webcast this meeting, should technical or other difficulties occur, the meeting will continue without being webcast via the Council's website.

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

# Coronavirus Risk Assessment for the Council Chamber, Guildhall

**Date:** 25 February 2022 (based on Living with Covid - February 2022)

**Review date:** 31 March 2022

**Author:** Lynda Martin, Corporate Health and Safety Manager, Portsmouth City Council

## Coronavirus Risk Assessment for the Executive Meeting Room, Guildhall

<b>Manager's Name and Job Title completing Risk Assessment:</b>	Lynda Martin Corporate Health and Safety Manager	<b>Risk Assessment Dept:</b>	Corporate Services	<b>Date:</b>	25 February 2022	<b>Signature:</b>	<i>Lynda Martin</i>
		<b>Location:</b>	Council Chamber, Guildhall				

Hazard	Who could be harmed and how	All controls required	How controls will be checked	Confirmed all in place or further action required
Risk of exposure to Covid-19 virus - Ventilation	Staff, contractors and attendees	<ul style="list-style-type: none"> <li>There are no longer capacity limits for the Guildhall Chamber.</li> <li>Face coverings are advised to be worn in busy and crowded places and should only be removed when addressing the meeting.</li> <li>The actions to maximise ventilation in the Guildhall Council Chamber remain in place: <ul style="list-style-type: none"> <li>The removal of internal casement secondary glazing windows.</li> <li>Large casement windows will be opened.</li> <li>Pedestal fans - positioned in each of the wing areas and along the back wall behind the pillars, maximum speed and modulation setting.</li> <li>High level doors and window - the double doors to the high level galleries and the gallery corridor window will be opened.</li> </ul> </li> </ul>	Staff will ensure windows are open and fans switched on.	In place
Risk of transmission of virus - Risk mitigation	Staff, contractors and attendees	<p>The Guildhall has the following measures in place:</p> <ul style="list-style-type: none"> <li>Face Coverings – as per government guidance, we encourage you to continue to wear a face covering whilst in the venue &amp; crowded places especially when walking around the building.</li> <li>Enhanced Sanitisation &amp; Cleaning – we will carry out enhanced cleaning procedures between meetings and we ask that you sanitise your hands on entry and regularly throughout your visit at the sanitisation points provided.</li> </ul>	The Guildhall Trust and PCC Facilities Team to implement and monitor.	In place
Risk of transmission of virus - Hygiene and prevention		<ul style="list-style-type: none"> <li>Although not a legal requirement attendees are strongly encouraged to keep a social distance and take opportunities to prevent the spread of infection by following the 'hands, face, space' and 'catch it, kill it, bin it' advice that also protects us from other winter viruses.</li> <li>Wash hands for 20 seconds using soap and water or hand sanitiser.</li> <li>Maintain good hygiene particularly when entering or leaving.</li> <li>Hand sanitiser and wipes will be located in the meeting room.</li> <li>No refreshments will be provided. Attendees should bring their own water bottles/drinks.</li> <li>All attendees should bring and use their own pens/stationery.</li> <li>Attendees are requested to undertake an asymptomatic/ lateral flow test within 48 hours of the meeting (requirement in place until the end of March 2022.)</li> <li>It is recommend that attendees should be double vaccinated and have received a booster.</li> </ul>	The Guildhall Trust and PCC Facilities Team to implement and monitor.	In place
Financial Risk	Staff, contractors and attendees	<ul style="list-style-type: none"> <li>The council meeting may need to be cancelled at short notice if the Covid-19 situation changes due to local outbreaks, local sustained community transmission, or a serious and imminent threat to public health.</li> <li>Technology in place to move to virtual council meeting if required and permitted by legislation.</li> </ul>	Financial commitments minimised wherever possible.	In place

<b>Updates</b>	<ul style="list-style-type: none"> <li>This risk assessment is a live document and will be updated as new information becomes available.</li> <li>All managers should feel free to adapt the measures contained within this risk assessment when assessing the risks for their own department's work activities/ premises.</li> </ul>
<b>Further information</b>	<ul style="list-style-type: none"> <li>Further government information on support during the coronavirus pandemic can be found <a href="#">here</a></li> <li>HSE guidance, on working safely during the coronavirus pandemic can be found <a href="#">here</a></li> <li>Staff wellbeing advice during the coronavirus pandemic can be found <a href="#">here</a></li> </ul>

## GOVERNANCE & AUDIT & STANDARDS COMMITTEE

MINUTES OF THE MEETING of the Governance & Audit & Standards Committee held on Friday, 21 January 2022 at 2.30 pm at the Council Chamber - The Guildhall

(NB These minutes should be read in conjunction with the agenda for the meeting which can be found at [www.portsmouth.gov.uk](http://www.portsmouth.gov.uk).)

### Present

Councillor Leo Madden (in the chair)  
Councillor Daniel Wemyss (Vice-Chair)  
Councillor Stuart Brown  
Councillor Charlotte Gerada  
Councillor Lee Hunt  
Councillor John Smith

### Officers

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

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

There were no apologies for absence.

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

There were no declarations of members' interests.

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

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

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

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

(TAKE IN REPORT)

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

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

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

##### Valuation of Lakeside North Harbour Asset

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

#### Pension Liability Valuation

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

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

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

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

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

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

(TAKE IN REPORT)

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

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

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

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

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

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

(TAKE IN REPORT)

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

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

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

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

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

**RESOLVED that the committee NOTED:**

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

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

(TAKE IN REPORT)

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

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

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

**RESOLVED that the committee NOTED:**

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

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

(TAKE IN REPORT)

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

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

**RESOLVED that the committee NOTED:**

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

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

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

(TAKE IN REPORT)

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

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

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

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

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

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

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

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

(TAKE IN REPORT)

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

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

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

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

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

TAKE IN REPORT)

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

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

The meeting concluded at 3.38 pm.

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Councillor Leo Madden  
Chair

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**Portsmouth City Council**

**Auditor's Annual Report  
Year ended 31 March 2021**

21 February 2022



Building a better  
working world

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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

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



A close-up portrait of a woman's face, focusing on her eyes and nose. The image is partially obscured by a bright yellow rectangular overlay on the left side. The woman has light brown hair and green eyes.

Section 1

## **Executive Summary**

## Executive Summary: Key conclusions from our 2020/21 audit

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

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

# Executive Summary: Key conclusions from our 2020/21 audit

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

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

## Fees

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

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



Helen Thompson

Associate Partner  
For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities

# Purpose and responsibilities

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

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## **Purpose**

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

## **Responsibilities of the appointed auditor**

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

As auditors we are responsible for:

Expressing an opinion on:

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

Reporting by exception:

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

## **Responsibilities of the Council**

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

Section 3

# Financial Statement Audit



# Financial Statement Audit

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

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## Key issues

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

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

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error - management override of controls</b></p> <p>An ever present risk that management is in a unique position to commit fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our audit work has provided assurance that:</p> <ul style="list-style-type: none"><li>• We did not identify any evidence of material management override.</li><li>• We did not identify any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.</li><li>• We did not identify any other transaction which appeared unusual or outside the Council's normal course of business.</li></ul>
<p><b>Inappropriate capitalisation of expenditure</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>We did not identify any instances of inappropriate capitalisation of revenue expenditure through our testing of PPE additions and revenue expenditure funded from capital under statute (REFCUS).</p>

## Financial Statement Audit (continued)

Significant Risk	Conclusion
<p><b>Valuation of investment properties and land &amp; buildings valued using Existing Use Value (EUV) and Fair Value.</b></p> <p>The fair value of investment property and land &amp; buildings valued using EUV or Fair Value represent significant balances in the Council's accounts and are subject to valuation changes impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. ISA's (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>Covid-19 has brought significant market volatility.</p>	<p>We identified two audit differences as a result of our work which management chose not to adjust. These were:</p> <ul style="list-style-type: none"> <li>• A projected understatement of the valuation of investment properties of £0.964m</li> <li>• A miscalculation in one land &amp; buildings valuation resulting in an overstatement of £1.47m. The net impact of this difference and the one on the next page was an overall £0.24m understatement of Property, Plant and Equipment (PPE).</li> </ul> <p>We also made recommendations regarding the treatment of purchaser costs and management fees in the valuations for consideration by management going forward.</p> <p>No other issues were identified from testing of these valuations, through our consideration of the work of the Council's valuers, or our review of accounting entries.</p>
Other area of audit focus	Conclusion
<p><b>Valuation of Lakeside North Harbour</b></p> <p>During the 2019/20 financial year, Portsmouth City Council purchased the Lakeside North Harbour office complex. This is a highly significant and material property, plant and equipment asset.</p> <p>Management is required to make judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet in respect of this asset.</p>	<p>Our specialists' review of the valuation of Lakeside North Harbour concluded that each of the assets comprising the Lakeside campus was within the expected valuation range. We therefore did not identify any issues with the valuation of Lakeside in the financial statements.</p>



## Financial Statement Audit (continued)

Significant Risk	Conclusion
Other area of audit focus	Conclusion
<p><b>Valuation of Land and Buildings</b></p> <p>The value of land &amp; buildings at depreciated replacement cost (DRC), and Housing Revenue Account (HRA) properties, also represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We identified three audit differences as a result of our work which management chose not to adjust. These were:</p> <ul style="list-style-type: none"> <li>• A miscalculation in one land &amp; buildings valuation resulting in an understatement of £1.71m. The net impact of this difference and the one on the previous page was an overall £0.24m understatement of PPE.</li> <li>• A projected £4.07m understatement of the valuation of PPE as a result of professional fees being omitted from DRC valuations in 2019/20 and 2020/21.</li> <li>• A projected £3.97m overstatement of the valuation of PPE as a result of a contingency allowance being included in DRC valuations, which is not expected based on best practice.</li> </ul> <p>The net impact of the 2<sup>nd</sup> and 3<sup>rd</sup> items above was therefore £0.1m.</p> <p>We made recommendations regarding the treatment of professional fees and contingency in DRC valuations, for consideration by management going forward.</p> <p>No other issues were identified from testing of these valuations, through our consideration of the work of the Council's valuers, or our review of accounting entries.</p>

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Pension Liability valuation</b></p> <p>The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p>	<p>As a result of our work we did not identify any audit differences.</p> <p>We were satisfied that pension liability was fairly stated and that the associated disclosures were appropriate.</p>
<p><b>Restatement of CIES, EFA and related disclosure notes.</b></p> <p>Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP. The Council changed its internal reporting structure in 2020/21, which led to the restatement of the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, in line with the new structure.</p>	<p>As a result of our work we did not identify any audit differences.</p> <p>We were satisfied that the Comprehensive Income and Expenditure Statement, and the Expenditure and Funding Analysis and related disclosure notes, were restated appropriately following the changes to the internal reporting structures.</p>
<p><b>PFI accounting</b></p> <p>The Council has four PFI arrangements, two of which are material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal specialist in 2016/17. We reviewed the accounting entries and disclosures in relation to PFI in detail in 2020/21, with a focus on any significant changes since the specialist's review.</p>	<p>No issues were identified with PFI accounting through the work performed.</p> <p>We assessed brought forward assurances as remaining appropriate, and noted no significant changes in the PFI models. We were satisfied that the financial statements disclosures were consistent with the PFI models.</p>

## Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p><b>Going concern disclosures</b></p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We were satisfied that management's going concern assessment was appropriate. We held discussions with management and agreed amendments to the final disclosure in financial statements where these were judged necessary.</p> <p>The final disclosure provided adequate information for the statement of accounts, and context for interpretation by the reader in the local government context.</p> <p>In our judgement there was no material uncertainty to disclose, as there was no likely impact on the level of statutory services provided.</p>
<p><b>Accounting for Covid-19 related grant funding</b></p> <p>The Council received government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in 2020/21.</p>	<p>As a result of our work we did not identify any audit differences.</p> <p>Our testing showed that covid grants had been appropriately treated as agent or principal, and consequently removed or included within the CIES respectively.</p>
<p><b>Group Accounts Assessment</b></p> <p>IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Council has interests in other entities, it needs to undertake qualitative and quantitative assessments to inform its decisions as to whether group accounts are required. This is an area of potential complexity and judgement requiring regular review.</p>	<p>We were satisfied that group accounts were not required for 2020/21. We reviewed the Council's updated group accounts assessment, and undertook our own review to assess whether the Council has any arrangements which would require the production of group accounts.</p> <p>This is an area which will need to be kept under review going forward.</p>

# Financial Statement Audit (continued)

## Audit differences

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

## Our application of materiality

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

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

Section 4

## Value for Money

# Value for Money (VFM)

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

## Scope and risks

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

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

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

## Reporting

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

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

## VFM Commentary

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

- **Financial sustainability**  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness:**  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Introduction and context

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

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

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

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

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

## Financial sustainability

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

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

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

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

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

## Financial sustainability (continued)

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

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

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

As part of setting the budget for 2022/23 in February 2021, The Council forecast General Fund balances from 2021/22 to 2024/25. This forecast showed that the General Fund Balance could drop to £13.1m in 2024/25 (from the 23.4m current year balance) as a result of a cumulative budget gap of £10.3m, though this would be met through savings as far as possible, to minimise the use of reserves. Once expected savings were taken into account, the forecast balance at 2024/25 increased to £19.1m, well above the minimum level set by the Director of Finance & Resources (s151 officer).

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



## Financial sustainability (continued)

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

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

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

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

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

Portsmouth City Council has 5 priorities which are as follows:

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

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

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

## Financial sustainability (continued)

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

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

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

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

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

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

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

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

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

## **Financial sustainability (continued)**

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

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

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

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

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

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

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

## Financial sustainability (continued)

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

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

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

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

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

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

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

## Financial sustainability (continued)

It was determined that:

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

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

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

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

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

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

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

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

## Governance

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

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

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

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

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

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

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

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

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

## Governance (continued)

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

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

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

### *How the body approaches and carries out its annual budget setting process*

Aspects of the budget setting process are noted in other sections of this Commentary above.

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

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

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

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

## **Governance (continued)**

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

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

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

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

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

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



## **Governance (continued)**

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

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

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

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

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

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

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

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

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

## Governance (continued)

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

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

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

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

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

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

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

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

## Governance (continued)

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

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

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

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

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

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

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

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## **Governance (continued)**

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

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

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## **Improving economy, efficiency and effectiveness**

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

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

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

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

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

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

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

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

## **Improving economy, efficiency and effectiveness (continued)**

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

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

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

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

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

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

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

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

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

## **Improving economy, efficiency and effectiveness (continued)**

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

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

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

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

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

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

## **Improving economy, efficiency and effectiveness (continued)**

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

---

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

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

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

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

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

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## **Recommendations**

We have no recommendations to make for the Council.

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

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## **Forward look**

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

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

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





Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

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

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

### **Whole of Government Accounts**

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

### **Report in the Public Interest**

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

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

### **Other powers and duties**

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

### **Control Themes and Observations**

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

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

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

Appendix A

## Audit Fees

## Audit Fees

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

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

### Notes:

(1) In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed that the recurrent cost of additional requirements to carry out our audit should increase by £80,727. We also submitted an in-year fee variation of £30,020. PSAA has determined the total fee variation across both elements for 2019/20 as £48,112. We expect similar costs in nature in 2020/21 and subsequent years. However, PSAA has stated that this will need to be determined each year.

(2) Note 2 - In August 2021, PSAA published 'Additional information for 2020/21 audit fees'. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes of a range of new and updated audit requirements. PSAA determined a minimum range for VFM (£10k-£19k) and a minimum amount for ISA540 (£4.4k).

(3) Note 3 - Any further additional fees (over and above VFM and ISA540) for 2020/21 will be communicated to the Director of Finance and Resources as soon as possible, once confirmation has been received from PSAA of the process to be followed (pending at the time of writing this report).

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

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# Agenda Item 6



<b>Title of meeting:</b>	Governance and Audit and Standards Committee Cabinet City Council
<b>Date of meeting:</b>	04 March 2022 (Governance and Audit and Standards Committee) 08 March 2022 (Cabinet) 15 March 2022 (City Council)
<b>Subject:</b>	Treasury Management Policy 2022/23
<b>Report by:</b>	Chris Ward, Director of Finance and Resources (Section 151 Officer)
<b>Wards affected:</b>	All
<b>Key decision:</b>	Yes
<b>Full Council decision:</b>	Yes

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## 1. Executive Summary of the Treasury Management Policy Statement

### 1.1. Treasury Management Policy

The attached Treasury Management Policy sets out the Council's policies on borrowing and investing surplus cash for 2022/23.

The Prudential Code produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires the City Council to approve a Capital Strategy (reported elsewhere on the Cabinet Agenda for 8 March 2022) providing an overview of the Council's plans for capital expenditure, its borrowing, and its investments.

The Treasury Management Policy also sets several treasury management indicators that will establish the boundaries within which treasury management activities will be undertaken. These are contained in paragraph 4.7 and appendix 5.1 of the Treasury Management Policy attached.

### 1.2. Annual Investment Strategy

The Treasury Management Policy includes the strategy for the investment of surplus cash, known as the Annual Investment Strategy, which establishes the types of investment, investment counter parties and investment durations that the Council will operate within.

## **2. Purpose of report**

- 2.1. The purpose of this report is to obtain the Council's approval of the updated Treasury Management Policy Statement (attached) which includes the Annual Investment Strategy.

## **3. Recommendations**

- 3.1. That the upper limit for principal sums invested for longer than 365 days contained in paragraph 4.7 of the attached Treasury Management Policy Statement be approved;
- 3.2. That the upper and lower limits on the maturity structure of borrowing contained in appendix 5.1 of the attached Treasury Management Policy Statement be approved;
- 3.3. That the attached Treasury Management Policy Statement including the Treasury Management Strategy and Annual Investment Strategy for 2022/23 be approved;
- 3.4. That the following change compared to the previous Annual Investment Strategy be noted:
  - (i) that the UK Infrastructure Bank be added to the approved sources of borrowing as set out in paragraph 3.9 of the Treasury Management Policy Statement;
- 3.5. As set out in paragraph 1.4 of the Treasury Management Policy Statement, the Director of Finance and Resources (Section 151 Officer) and officers nominated by him have delegated authority to:
  - (i) invest surplus funds in accordance with the approved Annual Investment Strategy;
  - (ii) borrow to finance short term cash deficits and capital payments from any reputable source within the authorised limit for external debt of £963m approved by the City Council on 9 February 2021;
  - (iii) reschedule debt to even the maturity profile or to achieve revenue savings;
  - (iv) to buy and sell foreign currency, and to purchase hedging instruments including forward purchases, forward options, and foreign exchange rate swaps to mitigate the foreign exchange risks associated with some contracts that are either priced in foreign currencies or where the price is indexed against foreign currency exchange rates;
- 3.6. That the Director of Finance and Resources (Section 151 Officer) has the power to delegate treasury management operations to relevant staff;



- 3.7. That the Chief Executive, the Leader of the City Council and the Chair of the Governance and Audit and Standards Committee be informed of any variances from the Treasury Management Policy when they become apparent, and that the Leader of the City Council be consulted on remedial action (paragraph 1.2.2 of Treasury Management Policy Statement).

#### 4. Background

- 4.1. The Council's treasury management operations cover the following:

- Cash flow forecasting (both daily balances and longer-term forecasting)
- Investing surplus funds in approved investments
- Borrowing to finance short term cash deficits and capital payments
- Management of debt (including rescheduling and ensuring an even maturity profile)
- Interest rate exposure management
- Hedging foreign exchange rate risks

- 4.2. The key risks associated with the Council's treasury management operations are:

- Credit risk - i.e. that the Council is not repaid, with due interest in full, on the day repayment is due;
- Liquidity risk - i.e. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs;
- Interest rate risk - that the Council fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are more than those for which the Council has budgeted;
- Exchange rate risk - the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately;
- Inflation risk, i.e. the chance that cash flows from an investment won't be worth as much in future because of changes in purchasing power due to inflation;
- Maturity (or refinancing risk) - this relates to the Council's borrowing or capital financing activities, and is the risk that the Council is unable to repay or replace its maturing funding arrangements on appropriate terms;

- Procedures (or systems) risk - i.e. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error, or corruption.

- 4.3. The total borrowings of the Council on 1 April 2022 are estimated to be £762m. The Council's investments on 1 April 2021 are estimated to be £299m. The cost of the Council's borrowings and the income derived from the Council's short-term treasury investments (i.e. excluding commercial property investments) are included within the Council's treasury management budget of £30m per annum. The Council's treasury management activities account for a significant proportion of the Council's overall budget. Therefore the Council's Treasury Management Policy aims to manage risk while optimising costs and returns. The Council will monitor and measure its treasury management position against the indicators contained in the Treasury Management Policy.
- 4.4. The City Council has adopted CIPFA's Treasury Management in the Public Services Code of Practice. The Code of Practice requires the City Council to approve a Treasury Management Strategy before the start of the financial year.
- 4.5. In addition the Government has issued statutory guidance that requires the Council to approve an Annual Investment Strategy before the start of the financial year.
- 4.6. The Treasury Management Strategy, and the Annual Investment Strategy are all contained within the attached Treasury Management Policy Statement.

## **5. Reasons for recommendations**

- 5.1. The recommendations provide assurance that the Council's attached Treasury Management Policy Statement reflects CIPFA's Treasury Management Code of Practice and have regard to statutory guidance issued by the Government. These are designed to:
- Enable the Council to borrow funds as part of managing its cash flow or to fund capital expenditure in a way that minimises risk and costs;
  - Provide for the repayment of borrowing;
  - Ensure that the Council's investments are secure;
  - Ensure that the Council maintains sufficient liquidity;
  - Maximise the yield on investments in a way that is commensurate with maintaining the security and liquidity of the investment portfolio;
- 5.2 The UK Infrastructure Bank has been added to the approved sources of borrowing set out in paragraph 3.9 of the Treasury Management Policy. The UK Infrastructure Bank was launched in June 2021 and is 100% owned by the UK Government. The

UK Infrastructure Bank offers loans to local authorities to finance high-value and complex economic infrastructure projects at lower rates than the Public Works Loans Board (PWLB).

5.3 There are no other changes to the Treasury Management Policy.

## **6. Integrated impact assessment**

6.1. The contents of this report do not significantly impact Portsmouth's communities (other than through the finances of the City Council), or equality and diversity.

## **7. Legal implications**

7.1. The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

## **8. Director of Finance's comments**

8.1. All financial considerations are contained within the body of the report and the attached appendices

.....  
Signed by:

**Appendices:** Treasury Management Policy Statement 2022/23

**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:

<b>Location:</b>	<b>Location</b>
Information pertaining to the Treasury Management Strategy	Financial Services

**TREASURY  
MANAGEMENT POLICY  
STATEMENT FOR 2022/23  
INCLUDING:**

- **TREASURY MANAGEMENT STRATEGY**
- **ANNUAL INVESTMENT STRATEGY**

**Portsmouth City Council  
Director of Finance and Resources (Section 151  
Officer)**

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# 1. INTRODUCTION

## 1.1 Background

- 1.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.
- 1.1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.1.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:
- "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*
- 1.1.5 Whilst any commercial initiatives or loans to third parties will affect the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

## 1.2 Reporting requirements

### 1.2.1 Capital Strategy

The revised CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements and governance procedures.

### 1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

- a. Treasury Indicators and Treasury Strategy** (this report) - The first, and most important report is forward looking and covers:
  - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - an investment strategy, (the parameters on how investments are to be managed).
- b. A Mid-year Treasury Management report** – This is primarily a progress report and will update members on the treasury management position, amending prudential and treasury management indicators as necessary, and revising any policies if required. In addition, the Governance and Audit and Standards Committee will receive quarterly update reports.
- c. An Annual Treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### 1.2.3 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit and Standards Committee.

In addition, the Governance and Audit and Standards Committee receives quarterly treasury management monitoring reports.



The Chief Executive, the Leader of the City Council and the Chair of the Governance and Audit and Standards Committee will be informed of any variances from the Treasury Management Policy when they become apparent, and the Leader of the City Council will be consulted on remedial action.

### **1.3 Treasury Management Strategy for 2022/23**

The strategy for 2022/23 covers:

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy including the risk appetite;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy including the risk appetite;
- creditworthiness policy; and
- the policy on use of external service providers.

### **1.4 Treasury Management Staff**

1.4.1 The treasury management function is undertaken by the Director of Finance and Resources (Section 151 Officer). This includes (i) investing surplus funds in accordance with the approved Annual Investment Strategy; (ii) borrowing to finance short term cash deficits and capital payments from any reputable source within the authorised limit for external debt; (iii) rescheduling debt to even the maturity profile or to achieve revenue savings and; (iv) to buy and sell foreign currency and hedge against currency movements to fulfil contracts priced in or indexed against foreign currencies. The Director of Finance and Resources will have the power to delegate authority to undertake these functions to relevant officers including the Deputy Director of Finance and Section 151 Officer, the Finance Manager (Technical and Financial Planning), the Treasury Manager and various back up cash dealers drawn from the Finance Directorate. The Director of Finance and Resources (Section 151 Officer), the Deputy Director of Finance and Section 151 Officer, and the Finance Manager (Technical and Financial Planning) are all qualified Chartered Public Finance Accountants.

### **1.5 Treasury Management Consultants**

- 1.5.1 The Council employs professional consultants to:
- Provide interest rate forecasts to inform the Council's borrowing and investment decisions;
  - Information on creditworthiness to inform investment decisions;
  - Benchmark the Council's investment performance against other local authorities.
- 1.5.2 The Council currently retains "Link Asset Services, Treasury Solutions" as its external treasury management advisors. The current contract expires on 31<sup>st</sup> January 2023. The contract will be re-let through a competitive process in accordance with the Council's procurement rules.

- 1.5.3 The Council also uses information from other sources such as the Building Societies Association and Homes England.
- 1.5.4 The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including from, but not solely, our treasury advisers.
- 1.5.5 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.
- 1.5.6 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties, which are outside the scope of the Treasury Management Strategy. The commercial type investments require specialist advisers, and the Council uses Avison Young in relation to this activity.

## 2. THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2025/26

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 2.1 Capital expenditure

The capital programme approved by the City Council on 11 February 2022 can be summarised in table A as follows:

<b>Table A</b>	<b>2020/21 Actual</b>	<b>2021/22 Revised Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
	£m	£m	£m	£m	£m	£m	£m
Other Non - Housing Revenue Account (HRA)	117	145	248	153	78	28	7
Housing Revenue Account (HRA)	46	63	89	158	49	31	33
<b>Total</b>	<b>163</b>	<b>208</b>	<b>337</b>	<b>311</b>	<b>126</b>	<b>59</b>	<b>40</b>
<b>Element financed from borrowing</b>	<b>36</b>	<b>48</b>	<b>143</b>	<b>177</b>	<b>43</b>	<b>-</b>	<b>-</b>

### 2.2 The Council's borrowing need (the Capital Financing Requirement)

2.2.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and therefore its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital funding resource, will increase the CFR.

2.2.2 The CFR does not increase indefinitely and is reduced by the minimum revenue provision (MRP) which is a statutory annual revenue charge that reduces the indebtedness broadly in line with each asset's life, thus the economic consumption of capital assets as they are used is charged to the Council's Revenue Budget.

2.2.3 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £62m of such schemes within the CFR.

The projected CFR is shown below:

<b>Table B</b>	<b>2020/21 Actual</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
<b>Capital Financing Requirement (£m)</b>							
Investment Properties	159	159	167	170	170	170	170
Other Non - Housing Revenue Account (HRA)	468	496	569	607	623	620	618
<b>Sub - Total</b>	<b>627</b>	<b>655</b>	<b>736</b>	<b>777</b>	<b>793</b>	<b>790</b>	<b>788</b>
Housing Revenue Account (HRA)	198	208	259	385	405	402	400
<b>Total CFR</b>	<b>825</b>	<b>863</b>	<b>995</b>	<b>1,162</b>	<b>1,198</b>	<b>1,192</b>	<b>1,188</b>

2.2.4 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The details above demonstrate the scope of this activity and, by approving these sums; consider the scale proportionate to the Authority's remaining activity.

### **2.3 Core funds and expected investment balances**

2.3.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

<b>Table C Year End Resources £m</b>	<b>2020/21 Actual</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
Fund balances / reserves	306	267	248	247	244	245	245
Capital grants unapplied	50	50	50	50	50	50	50
Capital receipts	18	18	18	18	18	18	18
Provisions	10	10	10	10	10	10	10
Other	48	48	48	48	48	48	48
<b>Total core funds</b>	<b>432</b>	<b>393</b>	<b>374</b>	<b>373</b>	<b>370</b>	<b>371</b>	<b>371</b>
Working capital*	19	9	9	9	9	9	9
Over / (under) borrowing - see overleaf	(47)	(101)	(238)	(332)	(329)	(330)	(330)
<b>Expected investments</b>	<b>404</b>	<b>301</b>	<b>145</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>

\*Working capital balances shown are estimated year-end; these may be higher mid-year

### 3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

#### 3.1 Current borrowing position

3.1.1 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

<b>Table D</b>	<b>2020/21 Actual</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
<b>External Debt (£m)</b>							
Debt on 1 <sup>st</sup> April	701	721	711	701	788	831	827
Expected change in Debt	20	(10)	(10)	87	43	(4)	2
Other long-term liabilities (OLTL) on 1 <sup>st</sup> April	62	57	51	46	42	38	35
Expected change in OLTL	(5)	(6)	(5)	(4)	(4)	(3)	(6)
<b>Actual gross debt on 31 March</b>	<b>778</b>	<b>762</b>	<b>757</b>	<b>830</b>	<b>869</b>	<b>862</b>	<b>858</b>
<b>The Capital Financing Requirement</b>	<b>825</b>	<b>863</b>	<b>995</b>	<b>1,162</b>	<b>1,198</b>	<b>1,192</b>	<b>1,188</b>
Over / (under) borrowing	(47)	(101)	(238)	(332)	(329)	(330)	(330)

Within the above figures the level of debt relating to commercial activities / non-financial investment is:

<b>Table E</b>	<b>2020/21 Actual</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
<b>External Debt for investment properties</b>							
Actual debt on 31 March £m	159	159	167	170	170	170	170
Percentage of total external debt %	20%	21%	22%	20%	20%	20%	20%

3.1.2 Within the range of prudential indicators, there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.1.3 The Director of Finance and Resources (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and proposals in the budget.

### 3.2 Treasury Indicators: limits to borrowing activity

3.2.1 **The operational boundary.** This is the limit, set as part of the capital programme, beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and of other cash resources (as described in Table B).

<b>Table F</b>	<b>2021/22 Estimate (£m)</b>	<b>2022/23 Estimate (£m)</b>	<b>2023/24 Estimate (£m)</b>	<b>2024/25 Estimate (£m)</b>	<b>2025/26 Estimate (£m)</b>	<b>2026/27 Estimate (£m)</b>
Commercial activities/ non-financial investments	159	167	170	170	170	170
Other Debt	653	782	950	990	987	989
Other long-term liabilities	51	46	42	38	35	29
<b>Total</b>	<b>863</b>	<b>995</b>	<b>1,162</b>	<b>1,198</b>	<b>1,192</b>	<b>1,188</b>

3.2.2 **The authorised limit for external debt.** This is a key prudential indicator, set as part of the capital programme, and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

<b>Table G</b>	<b>2021/22 Estimate (£m)</b>	<b>2022/23 Estimate (£m)</b>	<b>2023/24 Estimate (£m)</b>	<b>2024/25 Estimate (£m)</b>	<b>2025/26 Estimate (£m)</b>	<b>2026/27 Estimate (£m)</b>
Commercial activities/ non-financial investments	159	167	170	170	170	170
Other Debt	666	796	964	1,004	1,002	1,003
Other long-term liabilities	51	46	42	38	35	29
<b>Total</b>	<b>876</b>	<b>1,009</b>	<b>1,176</b>	<b>1,212</b>	<b>1,207</b>	<b>1,202</b>

### 3.3 Prospects for interest rates

3.3.1 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20<sup>th</sup> December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 20.12.21														
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

3.3.2 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16<sup>th</sup> December 2021.

3.3.3 As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

3.3.4 It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%.

### 3.4 Bond yields / Public Works Loans Board (PWLB) rates.

3.4.1 Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

3.4.2 While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.



### 3.5 Investment and borrowing rates

- 3.5.1 **Investment returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the Bank of England fall short of these elevated expectations.
- 3.5.2 **Borrowing interest rates** fell to historically very low rates because of the COVID crisis and the quantitative easing operations of the Bank of England and remain at historically low levels.
- 3.5.3 On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 1.0% in October 2019. The standard and certainty margins were reduced by 1.0% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.

**PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)

**PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)

**PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)

**PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)

**Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- 3.5.4 **Borrowing for capital expenditure.** Our long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing.
- 3.5.5 There will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

### 3.6 Borrowing strategy and risk appetite

- 3.6.1 It is often possible to borrow money short term at lower rates than it is possible to borrow long term. This often leaves the Council with two choices:
- Borrowing at either short term or variable interest rates. This would often enable the Council to borrow relatively cheaply, but the Council would need to accept that its borrowing costs might be volatile, as it exposes the Council to the benefits and dis-benefits of interest rate movements that can give rise to budget variances. This is a major risk when interest rates are expected to increase.
  - Borrowing long term at fixed rates. This provides stable and predictable revenue costs of borrowing. Fixed interest rates avoid the risk of budget variances caused by interest rate movements but prevent the council from benefiting from falling interest rates on its borrowing. There is a risk that the Council could become locked into relatively high rates of interest if interest rates fall.

3.6.2 The Council attaches a high priority to a stable and predictable revenue cost of borrowing in the long term. This reflects the fact that debt servicing represents 17.4% of the General Fund net revenue budget and 7.6% of the HRA net revenue budget.

3.6.3 The Council's objective in relation to debt is as follows:

- To borrow as cheaply as possible for the long-term at a fixed rate

This means that the Council is not totally risk averse, and the Council may borrow either short term or at variable rates if long-term interest rates are expected to fall.

Treasury management staff will act flexibly to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

### 3.7 Policy on borrowing in advance of need

3.7.1 Section 12 of the Local Government Act 2003 gives a local authority the power to invest for "any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs". While the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there is no legal obstacle to the temporary investment of funds borrowed for the purpose of funding capital expenditure incurred in the reasonably near future.

3.7.2 Borrowing in advance of need may enable the City Council to obtain cheaper loans than those available at the time when expenditure is incurred, although the consequent investment of funds borrowed in advance of need does expose the City Council to credit risk. The interest payable on funds borrowed in advance of need is likely to exceed the interest earned on the investment of those funds in the current economic climate. The Council may determine to borrow in advance of need in circumstances where it is reasonably expected that the total cost of borrowing over the whole life of the loan in present value terms is lower by borrowing in advance of need.

### 3.8 Debt rescheduling

3.8.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large margin of 0.80% between the PWLB's premature redemption rates and the PWLB's new borrowing rates.

3.8.2 If rescheduling was done, it will be reported to the Cabinet / Council, at the earliest meeting following its action.

### 3.9 Approved Sources of Long and Short Term Borrowing

	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●

	Fixed	Variable
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)		●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Internal (capital receipts & revenue balances)	n/a	n/a
Finance leases	●	●

### 3.10 Apportionment of Borrowing Costs to the Housing Revenue Account (HRA)

3.10.1 The Council operates two loans pools for the purposes of apportioning borrowing costs to the HRA.

3.10.2 The first loans pool consists of all the Council's loans taken out prior to 2020/21 for both General Fund and HRA purposes. The Council will continue to operate this loans pool and apportion costs according to locally established principles. The principles upon which the apportionment of borrowing costs should be based are as follows:

- The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;
- The loans portfolio is managed in the best interests of the whole authority;

3.10.3 The second loans pool consists of the three £20m loans that were taken from the PWLB at the HRA Certainty Rate which was 1.0% below the PWLB General Fund Certainty Rate at the time. The borrowing costs on these loans will be charged to the HRA in their entirety.

3.10.4 From 25 November 2020 the PWLB General Fund Certainty Rate was reduced by 1.0%, thereby removing the differential between the General Fund and HRA PWLB rates. Any future borrowing will therefore be included in the first loans pool covering both the HRA and the General Fund.

## 4. ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy – management of risk

4.1.1 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

4.1.2 The Council's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

4.1.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

4.1.4 The above guidance from the DLUHC and CIPFA place a high priority on the of risk. This authority has adopted a prudent approach to managing risk that is measured by the following means:

1. Minimum acceptable **credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings including outlooks and credit watches.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.2 under the categories of ‘specified’ and ‘non-specified’ investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
  - **Non-specified investments** are those with less high credit quality, may be for periods more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.
- 4.1.5 **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments to £200m, (see paragraph 4.3).
- 4.1.6 **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
- 4.1.7 This authority will set a limit for its investments that are invested for **longer than 365 days**, (see paragraph 4.7).
- 4.1.8 Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
- 4.1.9 This authority places **sector and geographical limits** on its investment portfolio to avoid the concentration of risk, (Appendix 5.3).
- 4.1.1 Because of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments, which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

## 4.2 Creditworthiness policy

- 4.2.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
  - It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 4.2.2 The Director of Finance and Resources (Section 151 Officer) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality that the Council may use, rather than defining what types of investment instruments are to be used.

- 4.2.3 Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed considering market conditions.
- 4.2.4 The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:
- Banks 1 - good credit quality – the Council will only use banks which:
    - i. are UK banks; and/or
    - ii. are non-UK and domiciled in a country which has a double A sovereign Long-Term rating
 and have, as a minimum, the following Fitch, Moody's, and Standard & Poor's credit ratings (where rated):
    - i. Short Term - F1, P-2, or A-2
    - ii. Long Term – A-
  - Banks 2 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
  - Banks 3 - Secured lending to banks partly owned by the City Council.
  - Building societies. The Council will use all societies which:
    - i. Meet the ratings for Banks 1 outlined above or;
    - ii. Have assets more than £350m;
 or meet both criteria.
  - Money Market Funds (MMFs)
  - UK Government (including gilts, Treasury Bills and the DMADF)
  - Local authorities
  - Housing associations. In addition to ratings from the credit agencies, housing associations will only receive investments if they have a viability rating of V1 and a governance rating of G1 from Homes England.
  - Supranational institutions that meet the ratings for banks outlined above
  - Corporate Bonds. The Council will invest in corporate bonds which:
    - i. Meet the ratings for Banks 1 outlined above or;
    - ii. Have a credit rating of BBB+ or;
    - iii. Have a credit rating of BBB- but form part of a portfolio managed by professional fund managers
  - Universities that meet the ratings for Banks 1 outlined above

- Pooled investment vehicles including equity funds, property funds, corporate bond funds and multi asset funds
- Subsidiary companies of the City Council

A limit of £200m will be applied to the use of non-specified investments

**4.2.5 Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

**4.2.6 Time limits** are applied to most investment categories to limit credit risk as the longer the duration of an investment is, the more time there is for the credit quality of the counter party to deteriorate. There are no time limits applied to corporate bonds managed by a professional fund manager, pooled investment vehicles, and subsidiary companies of the Council. Corporate bonds can be sold if there is a need to disinvest and a professional fund manager will have more resources to assess credit quality. Investments in pooled investment vehicles often do not have a predetermined maturity; the Council would withdraw its investment at the appropriate time. The Council controls its subsidiary companies and therefore is able to have a considerable influence on their credit quality.

4.2.7 **Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

<b>Table H</b>	<b>Fitch Long term Rating (or equivalent)</b>	<b>Money Limit</b>	<b>Time Limit</b>
Banks 1 highest quality	AA-	£26m	6yrs
Banks 1 higher quality	A+	£20m	6yrs
Banks 1 medium quality	A	£15m	6yrs
Banks 1 lower quality	A-	£10m	6yrs
Banks 2 the Council's own banker if the criteria for Banks 1 is not met	-	Minimised	Minimised
Banks 3 partly owned by the Council	-	£10m	5yrs
UK Government including DMADF	UK sovereign rating	unlimited	6yrs
Local authorities	N/A	£30m	6yrs
Housing associations higher quality	AA-	£30m	10yrs
Housing associations lower quality	A-	£20m	10yrs
Corporate bonds purchased by City Council but not meeting criteria for Banks 1 above	BBB+	£7m	365 days
Corporate bonds managed by a professional fund manager	BBB-	£0.32m per bond up to a limit of £8m	Unlimited
Pooled investment vehicles	-	£50m	Unlimited
Subsidiary companies of the Council	-	£30m	Unlimited
	<b>Fund rating</b>	<b>Money Limit</b>	<b>Time Limit</b>
Money Market Funds	AAA	£26m	liquid
Enhanced Money Market Funds	AA	£20m	liquid



- 4.2.8 The proposed criteria for specified and non-specified investments are shown in Appendix 5.2 for approval.
- 4.2.9 **Creditworthiness.** Significant levels of downgrades to short- and long-term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.
- 4.2.10 **Credit Default Swap (CDS) Prices.** Although bank CDS prices (these are market indicators of credit risk) spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

### 4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups, and sectors.

- a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments to £200m.
- b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of double A** from Fitch or equivalent.
- c) **Other limits.** In addition:
  - limits in place above will apply to a group of companies;
  - sector and geographic limits will be monitored regularly for appropriateness.

### 4.4 Environmental, Social and Governance Factors

- 4.4.1 The Council will seek to move towards investments that improve the environment, bring wider social benefits, and are with organisations with good governance.
- 4.4.2 The Council will avoid investments in fossil fuel extraction unless they are making substantial investment into renewable energy technologies as part of a strategy to move to becoming a clean energy supplier.
- 4.4.3 The Council will give weight to the environmental, social and governance elements of credit ratings in making investment decisions, provided that the overall risk profile of the investment portfolio (including liquidity risk) is not compromised, and that decisions remain consistent with responsible financial management and stewardship.

## **4.5 Investment Strategy and Risk Appetite Statement**

4.5.1 All the investment guidance available, both statutory and from the Chartered Institute of Public Finance and Accountancy (CIPFA), makes it clear that all investing must follow SLY principles - security, liquidity, yield. In accordance with the guidance issued, the Council's first priority in investing is security, followed by liquidity. After these priorities are met, the Council will seek to maximise yields. The Council will consider the environmental and social implications of its investments once SLY principles have been met.

4.5.2 The Council's objectives in relation to investment can accordingly be stated as follows:

*Sums are invested with a diversified range of counter parties using the maximum range of financial instruments\* consistent with a low risk of the capital sum being diminished through movements in market prices.*

\* Financial instruments include term deposits, certificates of deposits, corporate bonds, money market funds, structured notes, and shares in pooled investment funds

4.5.3 This means that the Council is not totally risk averse. Treasury management staff have the capability to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

4.5.4 When investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities but may invest in other bodies including unrated building societies, Registered Social Landlords (RSLs), universities and corporate bonds. The Council may invest surplus funds through tradable instruments such as treasury bills, gilts, certificates of deposit, corporate bonds, covered bonds and repos / reverse repos.

4.5.5 The Council will invest its surplus cash to provide sufficient liquidity to meet its cash flow needs but is mindful that the value of its investments will fall in real terms unless investment returns are at least equal to inflation. To earn investment returns more than inflation on as much of its surplus cash as possible, the Council will invest as much as it can in longer-term higher yielding investments whilst maintaining sufficient liquidity to meet its cash flow needs.

4.5.6 The Council may invest in lower risk structured investment products that follow the developed equity and other market indices where movements in prices may diminish the capital sum invested. These investments, and indeed any other investment, could also be diminished if the counter party defaults. Although the Council only invests in counter parties offering good credit quality, the credit quality of an investment counter party can decline during the life of the investment. This is particularly the case with long-term investments.

4.5.7 The Council may invest in externally managed pooled investment vehicles such as corporate bond funds, equity funds, property funds and multi asset funds, if the Council has cash for a term that is sufficient to cover cyclical movements in prices.

4.5.8 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed:

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall, consideration will be given to locking in higher rates currently obtainable, for longer periods.

#### 4.6 Investment return expectations.

4.6.1 As shown by the interest rate forecasts in section 3.3, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020. The Bank of England did increase Bank Rate by 0.15% to 0.25% in December, and by another 0.25% to 0.50% in February. Typically, a rate hike would fully flow through to market pricing, especially for shorter durations. However, many banks are already awash with cash and have little appetite for yet more monies, especially over year-end. This may limit the extent to which the full increase in Bank Rate is reflected in the rates offered for shorter term investments. For longer term investments, the increase in the pace of monetary policy tightening, rather than any increase in the peak level, may impact longer term interest rates.

4.6.2 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days.

4.6.3 These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

4.6.4 The Council is asked to approve the following treasury indicator and limit:

<b>Table I - Upper limit for principal sums invested for longer than 365 days</b>			
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Current investments as of 31 March more than 1 year maturing in each year	125	50	50

#### 4.7 End of year investment report

4.7.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## **5 APPENDICES**

- 5.1 Maturity structure of borrowing**
- 5.2 Credit and counterparty risk management**
- 5.3 Sector and Geographic Investment Limits**

## APPENDIX 5.1

### **Maturity Structure of Borrowing**

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

<b>Table J</b>		
<b>Maturity structure of fixed interest rate borrowing</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	20%
10 years to 20 years	0%	30%
20 years to 30 years	0%	40%
30 years to 40 years	0%	40%
40 years to 50 years	0%	40%
<b>Maturity structure of variable interest rate borrowing</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	20%
10 years to 20 years	0%	30%
20 years to 30 years	0%	30%
30 years to 40 years	0%	30%
40 years to 50 years	0%	30%

## **CREDIT AND COUNTERPARTY RISK MANAGEMENT**

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. To facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance and Resources (Section 151 Officer) has produced its treasury management practices (TMPs).

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

**Strategy Guidelines** – The main strategy guidelines are contained in the body of the Treasury Strategy Statement.

**Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments that would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Office deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Bonds issued by supranational banks of less than one year's duration.
3. A local authority, housing association or university.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers pooled

investment vehicles, such as money market funds, rated AA by Standard and Poor's, Moody's and / or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society) with a minimum Short-Term rating of A-2 / P-2 / F1 as rated by Standard and Poor's, Moody's and / or Fitch rating agencies .

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are contained in Table H.

**Non-specified investments** – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any investments with:

	<b>Non-Specified Investment Category</b>	<b>Limit £</b>
a.	<p><b>Supranational bonds greater than 1 year to maturity</b></p> <p><b>(a) Multilateral development bank bonds with a AAA long-term rating</b> - These are bonds defined as an international financial institution having as one of its objects economic developments, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p> <p><b>(b) A financial institution that is guaranteed by the United Kingdom Government</b> (e.g. National Rail)</p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. Like category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p><b>£26m for up to 6 years</b></p> <p><b>£26m for up to 6 years</b></p>
b.	<p><b>Gilt edged securities</b> with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Like category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	<p><b>Unlimited investments for up to 6 years</b></p>
c.	<p><b>The Council's own banker</b> if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	<p><b>£10m for up to 1 day</b></p>
d.	<p><b>Building societies not meeting the basic security requirements under the specified investments.</b> The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies that have a minimum asset size of £350m.</p>	<p><b>£6m for up to 2 years</b></p>
e.	<p>All <b>banks and building societies</b> that have a minimum long-term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals more than one year from inception to repayment).</p>	<p><b>Up to £26m (depending on credit quality)for up to 6 years</b></p>

	<b>Non-Specified Investment Category</b>	<b>Limit £</b>
f.	<b>Loan capital</b> in a body corporate with a credit rating of at least BBB+. This will enable investments to be made in large commercial companies such as British Telecom. A short-term investment in a BBB+ rated counterparty may be less likely to default than a long-term investment with an A- rated counterparty.	<b>£7m for 365 days</b>
g.	<b>Corporate bonds</b> bought on the Council's behalf by professional fund managers who will target an average credit rating of at least BBB+ for the corporate bond fund. The average credit rating of the corporate bond fund may fall to BBB if there was a downgrade to a single issue or a broad downgrade. We would not want the fund manager to be a forced seller in this situation. If this situation arises, a strategy will be agreed with the fund manager to return the average rating of the portfolio to BBB+.	<b>£8m for an unlimited duration</b>
h.	<b>Pooled investment vehicles including equity funds, property funds and multi asset funds</b> with the potential to generate returns more than inflation and thus maintain the value of the principal invested in real terms. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting requires movements in the market value of pooled investments to be charged to General Fund balances.	<b>£50m for an unlimited duration</b>
i.	<b>Subsidiary companies of the Council.</b> Funds could be invested to facilitate the establishment of a subsidiary company to develop housing in the greater Portsmouth area on a commercial basis.	<b>£30m for an unlimited duration</b>
j.	<b>Banks partly owned by the City Council.</b> The Council is an equity shareholder in Hampshire Community Bank (HCB). Purchasing bonds in HCB would contribute to the regeneration of Hampshire and offer interest of up to 3.5%. Investing in HCB carries greater risk than the other approved investments contained in the Council's Annual Investment Strategy, as HCB is a new entity that is in the process of developing its business, and currently has neither a banking license nor a credit rating. However, HCB will be able to offer assets as security to cover a bond. These assets would consist of loans of the highest credit quality to the small and medium enterprise (SME) sector. The loan assets offered as security would pass to the Council in the event of HCB defaulting.	<b>£10m for 5 years</b>



**The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately.

## **SECTOR AND GEOGRAPHIC INVESTMENT LIMITS**

### **Sector Investment Limits**

AA money market funds offer security and same day access. By aggregating investments, they can also invest in financial institutions that may not be interested in the relatively small sums that the Council can invest. Although AA money market funds are well diversified in their investments, there is a risk that more than one fund could have investments with the same bank or that the Council may also have invested funds in the same bank as a money market fund. Therefore, it is proposed that the Council should aim to have no more than £80m invested in money market funds.

Most building society lending is secured against residential properties. If property prices fall there may be inadequate security to support building societies lending giving rise to a systemic risk.

As RSL's offer one principal service and their assets principally consist of residential properties, excessive investments in RSLs would also expose the Council to a systemic risk.

Excessive investments in investment products tracking equity, property or other markets could also expose the Council to a systemic risk.

To minimise systemic credit risk in any sector the following limits will be applied:

Money market funds	£80m
Building societies	£155m
Registered Social Landlords	£80m
Investments tracking the equity, property, or other markets	£70m

### **Geographic Investment Limits**

To minimise systemic credit risk in any region, the following limits will be applied to the geographic areas where investments can be made in foreign countries.

Asia & Australia	£80m
Americas	£80m
Eurozone	£60m
Continental Europe outside the Eurozone	£60m



<b>Title of meeting:</b>	Governance & Audit & Standards Committee
<b>Date of meeting:</b>	4 <sup>th</sup> March 2022
<b>Subject:</b>	Internal Audit Performance Status Report to 15 February 2022
<b>Report by:</b>	Chief Internal Auditor
<b>Wards affected:</b>	All
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

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## 1. Summary

- 1.1 This is an Internal Audit Performance Status Report for the 2021-22 planned audit activities. Appendix A includes the detail of progress made against the annual plan and documents individual audit findings.

## 2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2021/22 to 15 February 2022 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

## 3. Recommendations

- 3.1 That Members note the Audit Performance for 2021/22 to 15 February 2022.
- 3.2 That Members note the highlighted areas of concern in relation to audits completed from the 2021/22 Audit Plan, including follow up work performed.

## 4. Background

- 4.1 The Annual Audit Plan for 2021/22 has been drawn up in accordance with the agreed Audit Strategy and was approved by this Committee on 5 March 2021 following consultation with Directors and relevant parties. The Plan is reviewed monthly in order to take account of any further changes in risk levels or corporate priorities.

**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 Progress Report

**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	<a href="http://www.legislation.gov.uk/uksi/2011/817/contents/made">http://www.legislation.gov.uk/uksi/2011/817/contents/made</a>
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	<a href="http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards">http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards</a>
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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 4<sup>th</sup> March 2022**

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 2021/22 internal audit plan.



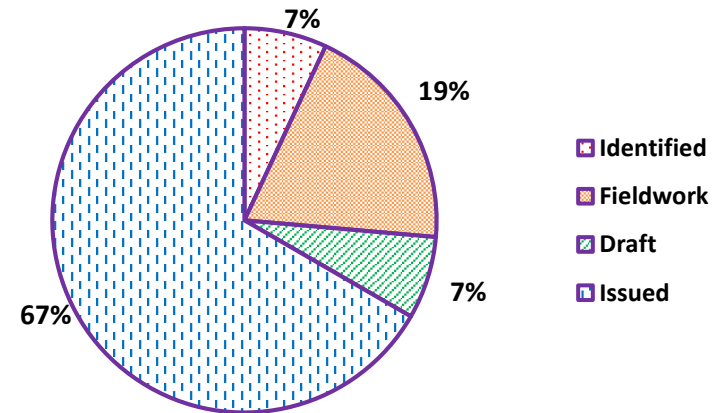
## 2. Audit Plan Progress as of 15<sup>th</sup> February 2022

There are 34 Full Audits, 9 Follow ups, 6 2<sup>nd</sup> follow up reviews and 24 grants, in the revised plan for 2021/22, totalling 73 reviews.

To date, 68 (93%) have been completed or are in progress as of 15<sup>th</sup> February 2022. This represents 49 (67%) audits where the report has been finalised, and 5 (7%) where the report is in draft.

Status	Audits
Identified	5
Fieldwork	14
Draft Report	5
Final Report	49

**Audit Plan Progress as of 15<sup>th</sup> February 2021**



### 3. Ongoing Internal Audit Involvement

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

- 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
- 9 special investigations - (excludes Benefit and Council Tax Support cases)
- 22 items of advice, (where the advice exceeds an hour's work)

## 4. Audit Plan Status/Changes.

The following changes have been made to the plan since the issue of the last progress report.

### **Audits removed from the Audit Plan:**

- Community Centre Associations - Limited attendance during the pandemic therefore risk exposure reduced.
- Housing Claims - Initial review identified a limited amount of claims therefore no longer deemed high risk
- Poverty Grant - No sign off required by the Chief Internal Auditor therefore removed from the 2021/22 audit plan.
- Children with Disabilities - Removed from the 2021/22 audit plan, to focus resources on high risk areas.
- Ravelin Follow Up - Issues raised to be covered in full audit of Local Authority Shareholder Governance as part of 2022/23 Audit plan.
- Future High Street Funding - No sign off required by the Chief Internal Auditor and full expenditure has not occurred therefore removed from the 2021/22 audit plan.

### **Audits added to the Audit Plan:**

- Modern Slavery Supplier Audit - Added to the 2021/22 audit plan following risk assessment.
- Whatsapp - Added to the 2021/22 audit plan to test the use of WhatsApp and the compliance to the agreed terms and conditions.

## 5. Areas of Concern

There are no new areas of concern to highlight for this reporting period.

## 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
<b>Assurance</b>	<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>
<b>Reasonable Assurance</b>	<i>Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority</i>
<b>Limited Assurance</b>	<i>Control weaknesses or risks were identified which pose a more significant risk to the Authority</i>
<b>No Assurance</b>	<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>
<b>NAT</b>	<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
<b>Low Risk (Improvement)</b>	<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>
<b>Medium Risk</b>	<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>
<b>High Risk</b>	<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>
<b>Critical Risk</b>	<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. 2020/21 Audits completed to date (15<sup>th</sup> February 2022)

### Claims Handling - Director of Finance and Recourses

**Exceptions Raised**

Critical	High	Medium	Low
0	0	2	0

**Overall Assurance Level**
**Reasonable Assurance**

Agreed actions are scheduled to be implemented by September 2022

**Assurance Level by Scope Area**

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

Two medium risk exceptions were raised in relation to an expired Insurance Fund Management Policy (March 2015) and PCC insurance Handbook. The second medium risk exception was raised as not all claims were notified to the insurance department within the policies timescales.

### Housing & Council Tax Benefits - Director of Finance and Recourses

**Exceptions Raised**

Critical	High	Medium	Low
0	0	0	0

**Overall Assurance Level**
**Assurance**
**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

No exceptions were raised as a result of this review

**Governance & Decision Making - SLEP**
**Exceptions Raised**

Critical	High	Medium	Low
0	0	0	0

**Overall Assurance Level**

<b>Assurance</b>
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**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>Assurance</b>
Compliance with Policies, Laws & Regulations	<b>Assurance</b>
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	NAT
Reliability and Integrity of Data	NAT

No exceptions were raised as a result of this review.

**New Customer Due Diligence - PORTICO**
**Exceptions Raised**

Critical	High	Medium	Low
0	0	1	0

**Overall Assurance Level**

<b>Reasonable Assurance</b>
-----------------------------

Agreed actions are scheduled to be implemented by September 2022

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>Reasonable Assurance</b>
Compliance with Policies, Laws & Regulations	<b>Reasonable Assurance</b>
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	<b>Assurance</b>
Reliability and Integrity of Data	NAT

One medium risk exception has been raised in relation to the failure to ensure that there is a fraud prevention strategy in place which includes effective due diligence processes and procedures.

**2SEAS SPEED Grant - Director of Port**

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Internal Auditor to sign the declaration confirming compliance.

**Port Grant - Director of Port**

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Internal Auditor to sign the declaration confirming compliance.

**Bus Subsidy - Director of Regeneration**

Grant Verification - Sample testing was able to evidence that the terms and conditions had been met which allowed the Chief Internal Auditor to sign the declaration confirming compliance.



## 9.2021/22 Follow-up Audits to date (15<sup>th</sup> February 2022)

### Solent 2050 Project - SLEP

**Original Exceptions Raised**

Critical	High	Medium	Low
0	0	1	0

**Follow Up Exception Position**

Critical	High	Medium	Low
0	0	0	0

**Original Assurance Level**

Reasonable Assurance
<b>Follow Up Assurance Level</b>
Assurance

**Follow Up Assurance Level by Scope Area**

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

The medium risk exception in relation to the termination of the original consultancy has now been closed and verified.

### IT Infrastructure - SLEP

**Original Exceptions Raised**

Critical	High	Medium	Low
0	0	3	1

**Follow Up Exception Position**

Critical	High	Medium	Low
0	0	1	0

**Original Assurance Level**

Reasonable Assurance
<b>Follow Up Assurance Level</b>
Reasonable Assurance

Agreed actions are scheduled to be implemented by April 2022

**Follow Up 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	NAT
Reliability and Integrity of Data	NAT

Two medium and one low risk exception has been closed and verified. The remaining medium risk is in relation to the data cleansing for information contained within Alciem (contact details, financial etc). This remains pending until the appointment of a compliance/Data Officer.

**Insurance - SLEP**
**Original Exceptions Raised**

Critical	High	Medium	Low
0	0	2	0

**Follow Up Exception Position**

Critical	High	Medium	Low
0	0	0	0

**Original Assurance Level**

**Reasonable Assurance**

**Follow Up Assurance Level**

**Assurance**

**Follow Up Assurance Level by Scope Area**

Achievement of Strategic Objectives	<b>Assurance</b>
Compliance with Policies, Laws & Regulations	<b>Assurance</b>
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	<b>Assurance</b>
Reliability and Integrity of Data	NAT

The two medium risk exceptions have now been closed and verified.

**Portico Training - Portico**
**Original Exceptions Raised**

Critical	High	Medium	Low
0	1	2	1

**Follow Up Exception Position**

Critical	High	Medium	Low
0	1	2	0

**Original Assurance Level**

**Reasonable Assurance**

**Follow Up Assurance Level**

**Reasonable Assurance**

Agreed actions are scheduled to be implemented by August 2022

**Follow Up Assurance Level by Scope Area**

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

The low risk exception has been closed and verified. The high risk exception remains in progress and is in relation to the completion of mandatory training, testing found 46% of staff had expired or incomplete training. Two medium risk exceptions also remain in progress as a result of this review. These are in relation to the failure to locate a relevant or accurate training policy and to complete a training cost analysis on in-house training costs.

**Repairs and Maintenance - Portico**
**Original Exceptions Raised**

Critical	High	Medium	Low
0	2	0	1

**Follow Up Exception Position**

Critical	High	Medium	Low
0	2	0	1

**Original Assurance Level**

Limited Assurance

**Follow Up Assurance Level**

Limited Assurance

Agreed actions are scheduled to be implemented by March 2022

**Follow Up 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	Assurance
Reliability and Integrity of Data	NAT

The two high risk exceptions remain open. These are in relation to an incomplete maintenance schedule that had not been reviewed and updated for 2022 and the failure to ensure PUC (Pre-use Checks) forms are completed when an asset is signed out for 7/10 security key logs. The remaining low risk exception is in progress.

## 10. 2021/22 2<sup>nd</sup> Follow-up Audits to date (15<sup>th</sup> February 2022)

As raised during the July 2020 Governance & Audits & Standards meeting. Internal Audit has scheduled in 2nd follow-up reviews for all areas where a 1st review highlighted risk exposure/s still unmitigated. The audits below detail the position as at a 2nd review.

### Port CCTV - Director of Port

#### 1<sup>st</sup> Follow-Up Exceptions Raised

Critical	High	Medium	Low
0	2	0	0

#### 2<sup>nd</sup> Follow Up Exception Position

Critical	High	Medium	Low
0	1	0	0

#### 1<sup>st</sup> Follow-Up Assurance Level

Limited Assurance

#### 2<sup>nd</sup> Follow Up Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by March 2022

#### 2<sup>nd</sup> Follow Up Assurance Level by Scope Area

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

One high-risk exception has been closed, and one remains in progress following audit testing. The Port have implemented a new CCTV system since the last audit, which is advised to address many of the technical problems raised in previous reviews. Accompanying documentation has been revised and, whilst not initially complete when provided for testing, is now stated to be finalised, with proof of the missing answers provided. It has not been possible to test the monthly retention audit process, as it has not yet commenced, and a minor issue has been raised over the challenge to the quality of Police DP2s.

## 11. Audits in Draft to date (15<sup>th</sup> October 2022)

Audit	Directorate	Draft	Projected Issue Date	Revised	Comments
Harry Sotnick house - Consultancy	Adult Social Care	10/11/2021	Mar-22		
Information Governance	Corporate Services	08/02/2022	Mar-22		
Shared Services	Executive	05/01/2022	Mar-22		
Water Safety	Culture, Leisure and Regulatory Services	20/01/2022	Mar-22		
Emergency Procedures	Housing Neighbourhood and Building Services	28/01/2022	Mar-22		

## 12. Exceptions

Of the 2021/22 full audits completed, 91 exceptions have been raised.

<b>Risk</b>	<b>Total</b>
<b>Critical Risk</b>	<b>0</b>
<b>High Risk</b>	<b>47</b>
<b>Medium Risk</b>	<b>36</b>
<b>Low Risk - Improvement</b>	<b>8</b>

# Agenda Item 8



Portsmouth  
CITY COUNCIL

<b>Title of meeting:</b>	Governance & Audit & Standards Committee
<b>Date of meeting:</b>	4 <sup>th</sup> March 2022
<b>Subject:</b>	Internal Audit Plan 2022/23 and Audit Charter, including Code of Ethics
<b>Report by:</b>	Chief Internal Auditor
<b>Wards affected:</b>	All
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

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## 1. Summary

- 1.1 This is an Internal Audit Plan for 2022/23, drafted in compliance with the Public Sector Internal Audit Standards and the Local Government Act. The Authority is required to create an annual audit plan and seek approval from the Governance & Audit & Standards Committee.
- 1.2 In addition, Internal Audit are required to review and update their Audit Charter and Code of Ethics and present to committee for approval.

## 2. Purpose of report

- 1.1 To present the proposed Internal Audit Plan for 2022/23 to the committee for approval, as set out in Appendix A.
- 1.2 To present the updated Audit Charter and Code of Ethics as shown in Appendix B

## 3. Recommendations

- 3.1 The members approve the proposed Internal Audit Plan for 2022/23 as set out in Appendix A.
- 3.2 The members approve the updated Audit Charter and Code of Ethics as shown in Appendix B

## 4. Background

- 4.1 The Annual Audit Plan for 2022/23 has been drawn up in accordance with the agreed Audit Strategy following consultation with Directors, Chief Executive and the Chair of the Governance & Audit & Standards Committee. 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.

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

**Appendices:**

- Appendix A – Internal Audit Plan 2022/23
- Appendix B - Audit Charter and Code of Ethics 2022

**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	<a href="http://www.legislation.gov.uk/uksi/2011/817/contents/made">http://www.legislation.gov.uk/uksi/2011/817/contents/made</a>



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	<a href="http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards">http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards</a>

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

.....  
Signed by:

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**Portsmouth**  
CITY COUNCIL

## 2022/23 Internal Audit Plan

Elizabeth Goodwin, Chief Internal Auditor

## Executive Summary

This document sets out Internal Audit's programme of work for 2022/23, to provide Audit Committee with the opportunity to comment on the proposed coverage.

The Plan is informed by:

- Legal requirements, specifically including grant sign offs by Internal Audit.
- Industry good practice and sector trends.
- Outcomes of prior Internal Audit reviews, for example all 2021/22 higher risk exceptions will be followed up during 2022/23.
- Consultation with the Council's senior management, including the Chief Executive, Deputy Chief Executive and Director of Finance and Section 151 Officer.

Primarily the Plan is risk based, although a number of fundamental areas, for example key financial processes such as Payroll, Accounts Payable and Receivable are reviewed every year.

Detail regarding the standards applicable to Internal Audit are set out in the Public Sector Internal Audit Standards:

<http://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

## Proposed Audits

Audits	Type	Provisional Scope	Strategic Risks	Corporate Outcomes
<b>Adult Social Care</b>				
Care Home Placements	Full	Review of key controls and processes	RISK03, RISK04,	PCC05
System One	Full	New system review covering security and use	RISK08	PCC05
Fieldwork Services	Full	Review of key controls and processes	RISK03	PCC01, PCC05
Harry Sotnick house	Full	Review of key financial controls and use of agency staff	RISK03, RISK11	PCC05
Deprivation of Liberty	Full	Review of key controls and processes	RISK04	PCC01, PCC05
Direct Payments	Follow-up	Follow up on previous audit exceptions	RISK03, RISK04, RISK11	PCC01, PCC05
Domiciliary Care	Follow-up	Follow up on previous audit exceptions	RISK03, RISK04, RISK11	PCC01, PCC05
<b>Children, Families and Education</b>				
Child Care Development and Early Years education	Full	Review of key controls and processes in relation to legislation	RISK01, RISK11	PCC01, PCC04
Transition (Childrens to Adults)	Full	Review of key controls and processes in relation to legislation	RISK01, RISK04, RISK11	PCC01, PCC04, PCC05
Direct Payments	Full	Review of key controls and processes	RISK01, RISK11	PCC01, PCC05
Tangiers Road	Full	Review of key operational and financial controls	RISK01, RISK11	PCC04, PCC05
Craneswater School	Full	Review of key controls and processes	RISK11	PCC04
School (TBD)	Full	Review of key controls and processes	RISK11	PCC04
Orpheus Grant	Grant	Grant certification	RISK01, RISK11	PCC04

Troubled Families Grant	Grant	Grant certification	RISK01, RISK04, RISK11	PCC01, PCC04
<b>Corporate Services</b>				
NHS Data Security & Protection Tool Kit	Full	Review of supporting evidence for self assessment	RISK07, RISK08	PCC01
Fusion HR	Full	Review of key controls and processes	RISK07, RISK08	PCC05
Health & Safety	Full	Review of key controls and processes relating to legislation	RISK09, RISK12	PCC01, PCC05
Bring Your Own Device (BYOD)	Full	Review of key controls and processes	RISK07	PCC05
Application Management	Full	Review of key controls and processes	RISK07	PCC05
OneDrive/ U Drive Decommission	Full	Review of key controls around data management	RISK07	PCC05
Website & App Accessibility Compliance	Follow-up	Follow up on previous audit exceptions	RISK08	PCC05
<b>Executive</b>				
Partnership Governance	Full	Review of governance & auditing arrangements	RISK08, RISK10	PCC03, PCC05
Hybrid Working	Full	Review of project delivery and output	RISK07, RISK08	PCC05
Shareholder Governance	Full	Review of governance arrangements for LA companies	RISK10	PCC05
Shared Services	Follow-up	Follow up on previous audit exceptions	RISK10	PCC05
<b>Culture, Leisure and Regulatory Services</b>				
Pyramids	Full	Review of contract management	RISK11	PCC02
Libraries	Full	Review of key controls and processes	RISK11	PCC02
Community Funerals	Full	Review of key controls and processes	RISK11	PCC05
Trading Standards	Follow-up	Follow up on previous audit exceptions	RISK09	PCC03
HIVE	Follow-up	Follow up on previous audit exceptions	RISK10	PCC01, PCC05

Cemeteries	Full	Review of key controls and processes	RISK09	PCC05
<b>Finance and Resources</b>				
Supplier Chain Audit	Full	Review of arrangements in place for key suppliers	RISK10	PCC05
Council Tax and NNDR	Full	Fundamental review	RISK07, RISK08	PCC01, PCC02, PCC04, PCC05
Expenses (Fusion)	Full	Fundamental review	RISK07, RISK08, RISK11	PCC01, PCC02, PCC04, PCC05
Accounts Payable	Full	Fundamental review	RISK07, RISK08, RISK11	PCC01, PCC02, PCC04, PCC05
Accounts Receivable	Full	Fundamental review	RISK07, RISK08, RISK11	PCC01, PCC02, PCC04, PCC05
Purchase Cards	Full	Fundamental review	RISK08, RISK11	PCC01, PCC02, PCC04, PCC05
Payroll/ Pension	Full	Fundamental review	RISK07, RISK08, RISK11	PCC01, PCC02, PCC04, PCC05
Treasury Management	Full	Review of key controls and processes	RISK07, RISK11	PCC01, PCC02, PCC04, PCC05
<b>Housing Neighbourhood and Building Services</b>				
Rent Income	Full	Fundamental review	RISK07, RISK08, RISK11	PCC01, PCC02, PCC04, PCC05
Out of Hours Service	Full	Review of key controls and processes	RISK04, RISK09, RISK11	PCC01, PCC03, PCC05
Voids	Full	Review of key controls and processes	RISK07, RISK11	PCC01, PCC02, PCC04, PCC05
Gas Services (includes servicing & certification)	Full	Review of key controls and processes	RISK09, RISK10	PCC03, PCC04, PCC05

Leaseholder Charges	Full	Review of key controls and processes around identification and charging	RISK11	PCC02
Disabled Facilities Grant	Grant	Grant certification	RISK04, RISK11	PCC01, PCC04, PCC05
Green Homes Grant	Grant	Grant certification	RISK05, RISK11	PCC03
Depot Services	Follow-up	Follow up on previous audit exceptions	RISK09, RISK11	PCC03
<b>Port</b>				
Income Due	Full	Review of key controls and processes	RISK11	PCC05
Accounts Payable & Receivable	Full	Review of key controls and processes	RISK07, RISK08, RISK11	PCC01, PCC02, PCC04, PCC05
Asset Management	Full	Review of key controls and processes	RISK11	PCC05
Port Grant	Grant	Grant certification	RISK11	PCC03, PCC05
2SEAS SPEED Grant	Grant	Grant certification	RISK11	PCC03, PCC05
2SEAS PECS Grant	Grant	Grant certification	RISK11	PCC03, PCC05
<b>Public Health</b>				
Public Health Intelligence	Full	Review of data reliability and integrity	RISK12	PCC01, PCC04, PCC05
Business Planning & Risk Management	Full	Strategic review in relation to decision making processes	RISK06, RISK09, RISK12	PCC01, PCC04, PCC05
Public Health Outcomes	Full	Review to confirm evidence of PH outcomes achieved	RISK06, RISK09, RISK12	PCC01, PCC04, PCC05
COMF Grant	Grant	Grant certification	RISK06, RISK09, RISK12	PCC01, PCC04, PCC05
<b>Regeneration</b>				
CIL Community Infrastructure Levy	Full	Review of key controls and processes	RISK11	PCC02



Commercial Rents	Full	Review of key controls and processes	RISK08, RISK11	PCC01, PCC02, PCC03, PCC04, PCC05
Planning & Enforcement	Full	Review of key controls and processes	RISK02, RISK13	PCC02, PCC03
Parking Zones & Digital Permits	Full	Review of key controls and processes	RISK11, RISK09	PCC01, PCC05
Home to school transport	Follow-up	Follow up on previous audit exceptions	RISK01, RISK04, RISK11	PCC01, PCC03, PCC04, PCC05
Hire Cars	Follow-up	Follow up on previous audit exceptions	RISK11	PCC03
Local Transport Capital	Grant	Grant certification	RISK11	PCC01, PCC03, PCC04
Transforming City Fund	Grant	Grant certification	RISK10, RISK11	PCC03
Bus Subsidy Grant	Grant	Grant certification	RISK11	PCC03

## Risks

Ref	Risk
RISK01	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.
RISK02	Challenges in recruiting and retaining key staff and skills into the city, meaning that key services are compromised.
RISK03	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.
RISK04	Reduction in services for vulnerable people, such as domestic violence and substance misuse service, lead to poorer outcomes and increased demand for other services.
RISK05	Failure to protect the city environment, including in relation to air quality, flood defence and natural and heritage assets.
RISK06	Exposure to national level political and legislative change (such as welfare reform) including impact on scope of duties, powers, responsibilities and service demand.
RISK07	Exposure to system failure, including support expiry, single points of failure, cyber
RISK08	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures
RISK09	Failure to fulfil health and safety responsibilities, including in respect of operational and heritage buildings.
RISK10	Increased partnering, alternative delivery models and commercial approaches increase pressure on capacity, challenge governance arrangements, and increase risk of income loss if arrangements cease.
RISK11	Addressing underlying budget pressures and delivering effective and sustainable services, particularly in children's and adults' services.
RISK12	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.
RISK13	Failure to deliver strategic improvements for the city, due to wider market factors

## Objectives

Ref	Outcome
PCC01	Make Portsmouth a city that works together, enabling communities to thrive and people to live healthily, safe and independent lives.
PCC02	Encourage regeneration built around our city's thriving culture, making Portsmouth a great place to live, work and visit.
PCC03	Make our city cleaner, safer and greener.
PCC04	Make Portsmouth a great place to live, learn and play, so our children and young people are safe, healthy and positive about their futures.
PCC05	Make sure our council is a caring, competent and collaborative organisation that puts people at the heart of everything we do.

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**Portsmouth City Council**  
**Internal Audit Charter & Code of Ethics**  
**February 2022**  
**Author: Elizabeth Goodwin Chief Internal Auditor**

**Introduction**

1. On 1<sup>st</sup> April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).
2. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The requirements of the Standards are covered in this Internal Audit & Counter Fraud Charter & Code of Ethics. The Standards have been revised from 1<sup>st</sup> April 2017 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

**Authority**

3. 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'

**Responsibility**

4. The responsibility for maintaining an adequate and effective system of internal audit within Portsmouth City Council lies with the Director of Finance and Resources (S151 Officer).
5. 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*'.

**Definitions**

6. 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'.
7. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.

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8. The Internal Audit section will consider the adequacy and effectiveness of the internal control framework detailed below which aid in supporting the Authority's vision.
  - Achievement of organisation's strategic objectives;
  - Reliability and integrity of financial and operational information;
  - Effectiveness and efficiency of operations and programmes;
  - Safeguarding of assets; and
  - Compliance with laws, regulations and rules, policies, procedures and contracts.
9. In accordance with the PSIAS the definition of 'the board' and 'senior management' are;
10. *The Board* – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance and Audit and Standards Committee.
11. *Senior Management* – those responsible for the leadership and direction of the Council. At the Council this means the Chief Executive, s151 officer, City Solicitor/Monitoring Officer and Directors.
12. The Internal Audit section will place a level of assurance on the risk posed on each individual assignment based on the testing and findings.
13. The assurance levels are defined in 4 levels:
  - a. Assurance
  - b. Reasonable Assurance
  - c. Limited Assurance
  - d. No Assurance

**Purpose and scope**

14. The Internal Audit section at Portsmouth City Council will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control. It will also provide advice and consultancy services at the specific request of the Authority, with the aim of improving governance, risk management and control whilst contributing to the overall Annual Opinion.

**Portsmouth City Council  
Internal Audit Charter & Code of Ethics**

**February 2022**

**Author: Elizabeth Goodwin Chief Internal Auditor**

15. 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.
16. The Internal Audit section will not be restricted to the audit of financial systems and controls but will cover all operational and management controls. There are therefore no scope limitations, in that all of the Authority's activities fall within the remit of the Internal Audit section; however consideration will always be given to the competency, qualification and experience of those auditors tasked with carrying out the individual assignments. For example Internal Audit will not make judgements or evaluations on the appropriateness of policy decisions.
17. Consultancy activities (i.e. advice, facilitation, counsel and training) the nature and scope of which will be agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes without the Internal Audit section assuming responsibility.
18. Special reviews may be conducted at the request of Members, Chief Executive, s151 Officer or the Monitoring Officer. The Internal Audit section may also conduct investigations as requested by the Investigation Steering Panel - ISP (consisting of the Monitoring Officer, s151 Officer (or Deputy), and the Chief Internal Auditor (or deputy), provided such reviews (special or investigation) do not compromise its objectivity or independence.
19. The impact on the Audit Plan must be assessed and, if necessary, the Plan reprioritised by the Chief Internal Auditor. Any significant changes must be reported to the Corporate Governance Group (consisting of the Chief Executive, Monitoring Officer, s151 Officer(or Deputy), Corporate Performance Manager and the Chief Internal Auditor (or Deputy)) as well as the Members of the Governance and Audit and Standards Committee (the Board) in their next reporting cycle.
20. Fraud prevention and detection is the responsibility of managers. However if Internal Audit detects any suspected irregularities during the course of their activities they will report them to ISP. The Chief Internal Auditor may review the system for control weaknesses but any investigation will be under the direction of ISP.

**Organisational Independence**

21. The Internal Audit section has no operational responsibilities for any financial systems, including system development and installation. It may however provide

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advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.

22. The Chief Internal Auditor will be free from interference (although have due regard for the Authority's key objectives and risks and consult 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 no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
23. Internal Audit is supported by the Authority and its independence is seen as key to providing Portsmouth City Council with an effective service.
24. The Internal Audit section will have free and unfettered access to the Senior Management, defined as s151 Officer, Chief Executive, and Monitoring Officer. In addition the Internal Audit section will have free and unfettered access to the Leader of the Council and the Chair of the Governance and Audit and Standards Committee.

**Responsibilities of Individual officers**

**Chief Internal Auditor**

25. The Chief Internal Auditor must ensure that:
  - (1) They identify the overall remit of audit activity
  - (2) They carry out an audit needs risk assessment and prioritise the results into an annual plan in consultation with the s151 Officer, Chief Executive, and Chair of Governance and Audit and Standards Committee.
  - (3) The Internal Audit resources are appropriate and sufficient i.e. in skills and knowledge and are effectively deployed to achieve the approved annual audit plan. Any inadequacies will be raised with the s151 Officer and the Governance and Audit and Standards Committee.
  - (4) There are adequate policies and procedures in place to guide the Internal Audit activities and in accordance with PSIAS.
  - (5) The Internal Audit section complies with the PSIAS and Code of Ethics at all times.
  - (6) They periodically review the Internal Audit Charter and Audit Strategy for adequacy and effectiveness.
  - (7) Constructive working relationships are fostered and encouraged between auditors, auditees, managers, and external auditors.
  - (8) The Internal Audit section maximises the use of technology for an effective service delivery.



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- (9) Confidentiality is maintained at all times.
- (10) Individual auditors do not audit activities for which they previously had responsibility within the last 12 months.
- (11) They take all reasonable measures to ensure that all individual auditors have an objective frame of mind and be in a sufficiently independent position to be able to exercise judgement with impartiality.
- (12) A follow-up process to monitor and ensure that management actions have been effectively implemented is undertaken promptly.
- (13) Where management has accepted a level of risk that may be unacceptable to the Authority, that the matter is discussed with the s151 Officer and Chief Executive as relevant, or escalated to the Governance and Audit and Standards Committee to resolve.
- (14) They continuously review the quality, effectiveness and provision of the Internal Audit Section.
- (15) Access to audit records is controlled and only released in accordance with Freedom of information, General Data Protection Regulation Data Protection Act requirements.
- (16) All records relating to Internal Audit activities are retained for the required period and in line with the Authority's guidelines.
- (17) They assist the Governance and Audit and Standards Committee with their agenda and attend each meeting.

Individual Auditors

26. All individual auditors must ensure that they:

- (1) Maintain an impartial and unbiased attitude and avoid any conflict of interest.
- (2) Will refrain from assessing any activity to which they were previously responsible within the last twelve months, although they may provide consulting services.
- (3) Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
- (4) Exercise due professional care at all times.
- (5) Assist management in establishing or improving risk management processes, without managing those risks.
- (6) Give adequate notice of the start of a planned audit
- (7) Develop and document a plan of each assignment detailing its objectives, scope and any limitations, timing and resource allocations.
- (8) Consider the objectives, risks, effectiveness of the control framework, value for money obtained, of the activity under review, when planning and setting the objectives of each assignment.
- (9) Develop and document a programme of works that achieves the audit objectives.

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- (10) Document sufficient information on their identification, analysis and evaluation of risks and controls within the area of audit activities, i.e. that the evidence is reliable, factual and adequate.
- (11) Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion/ assurance level, risk rating, recommendations (where relevant) and proposed action plans.
- (12) Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
- (13) Agree a plan of action with the Service to remedy control weaknesses
- (14) Comply with the Audit Manual and PSIAS.
- (15) Maintain professional independence, objectivity, integrity and confidentiality
- (16) Inform the Chief Internal Auditor of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity
- (17) Maintain proper documented files supporting conclusions via Audit Management Software
- (18) Hold in safe custody any documents or property or other material obtained for audit use or investigation.
- (19) Act with due care to provide “reasonable” assurance on the adequacy of control
- (20) Foster good working relationships with auditees, external auditors and managers

S151 Officer

27. The s151 Officer has the authority to ensure that the provision of the Internal Audit section is sufficient to meet the s151 requirements.
28. The s151 Officer must ensure that:
  - (1) Any suspected irregularities are properly and appropriately investigated and action taken.
  - (2) S/he is satisfied that the Annual Audit Opinion assurance statement either on its own or as part of the Annual Governance Statement, reflects accurately the position of the control framework.

Chief Executive

29. The Chief Executive carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Monitoring Officer

30. The Monitoring Officer is responsible for:
  - (1) Ensuring lawfulness and fairness in decision making

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- (2) Dealing with investigations into matters referred by the Standards and Governance Assessment Sub-committee and making reports or recommendations in respect of them to the Standards and Governance Consideration Sub-committee and
- (3) Providing advice on:
  - the scope of powers to take decisions
  - maladministration
  - financial impropriety
  - probity.

Members

31. The Members as the corporate body 'the board', have the responsibility to ensure that there is a current and effective Internal Audit function. These responsibilities are delegated to the Governance and Audit and Standards Committee and include ensuring that:
  - (1) The function complies with PSIAS.
  - (2) The Internal Audit section's status is sufficient within the organisation, is independent organisationally and in its reporting and is free to set its priorities.
  - (3) There is a strategy and annual plans focused on the risk and control framework.
  - (4) Significant weaknesses identified by audit are addressed.
  - (5) Agreed actions are implemented.

Auditees

32. In accordance with Financial Rule E4 All persons under the controls of PCC; staff, members, contractors, temporary and agency staff must ensure that:
  - (1) They maintain a constructive approach to Internal Audit.
  - (2) Must present any cash, stores or any other authority asset under his or her control if requested to do so by an Auditor.
  - (3) Must ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
  - (4) Must ensure that auditors are provided with any information and explanations that they seek in the course of their work.
  - (5) They respond promptly and formally to audit reports within the agreed timescale
  - (6) They implement agreed actions and within an agreed timed action plan.

External Auditors

33. The Internal Audit section is expected to co-operate and regularly liaise with the external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.

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34. The external auditors have a responsibility to assess whether Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

**Reporting Structure**

35. On an annual basis the Chief Internal Auditor will present for review and approval any changes to the Internal Audit Charter and Code of Ethics, the Internal Audit Strategy and the annual audit plan of activities, including resource requirements and any perceived deficiencies to the Governance and Audit and Standards Committee, following consultation with the, s151 Officer, Chief Executive and relevant members.
36. An update on progress and performance to the audit plan will be presented at each Governance and Audit and Standards Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.
37. Where critical risks, or a significant number of high risks are identified as part of an audit review, (i.e. those control weaknesses that could have a significant impact on the achievement of the Authority's objectives) which result in a no assurance opinion, will be reported in their entirety as part of the 'progress to plan' reporting. All other findings will be summarised in a covering report.
38. It is for management to determine whether or not to accept the audit exceptions and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions, which will be presented to the Governance and Audit and Standards Committee to challenge if they so wish. Where action is proposed on critical/high risks but has not been taken within a reasonable timeframe the matter will be escalated to the Governance and Audit and Standards Committee for resolution.
39. All reviews of the Annual Audit Plan will be presented for approval along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.
40. All reports issued in relation to any audit or counter fraud activity will be issued in the name of the Chief Internal Auditor. Any issues of concern maybe escalated at the Corporate Governance Board as well as at the Governance and Audit and Standards Committee.

**Access to records and personnel**

41. All Internal Auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews as specified in Financial Rule E4 and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.

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42. All Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police. Consultation with the Investigation Steering Panel will be carried out in advance of contacting the Police where possible.

**Due Professional Care**

43. The Chief Internal Auditor must hold a professional qualification and current membership, CMIIA, CCAB or equivalent and be suitably experienced.
44. The Chief Internal Auditor will assess on an annual basis the knowledge, skills and other competencies required within the Internal Audit section in order for it to fulfil its purpose and effectively carry out professional duties in accordance with statutory requirements. This will include technology- based audit techniques to perform assignment work. Should there be insufficiencies identified these will be reported immediately to the s151 officer and reported to the Governance and Audit and Standards Committee if there is likely to be an impact on achieving either the Annual Audit Plan or a sufficient level of reviews to enable an effective annual audit opinion to be made.
45. All Internal Auditors will have sufficient knowledge through training and continued professional development to carry out their duties including evaluating the risk of fraud; however it remains the responsibility of management to detect and manage fraud.
46. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the s151 officer, if the Chief Internal Auditor has been unable to resolve. Impairment may include, but is not limited to, personal conflict of interest, scope limitation, restrictions on access to records, personnel and properties and resource limitation, such as funding. A record will be made of any action taken.

**Quality Assurance & Improvement Programme**

47. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit. In order to achieve this, internal on-going supervision will be carried out after each audit assignment with the results recorded in Project X (the electronic working papers). Along with the recording of one-to-one meetings and annual Performance Development Records on each individual auditor.

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48. In addition to this the Chief Internal Auditor will carry out an annual self-assessment of the Internal Audit sections performance against PSIAS, measuring the compliance with the definition of Internal Audit and Code of Ethics.
49. External peer reviews will be conducted every five years against PSIAS. The scope of the external assessment will be agreed with the s151 officer and the Chair of the Governance and Audit and Standards Committee. All results i.e. compliance or non-compliance with the standards, will be communicated to the Governance and Audit and Standards Committee along with an improvement plan if required and regular progress reports.
50. Any significant deviations from the Standards will be included in the Annual Governance Statement and Annual Audit Opinion.
51. The effectiveness of the Internal Audit Section will be measured by;
  - (1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high risk exceptions highlighted in Audit reviews.
  - (2) Compliance with the PSIAS and Code of Ethics (reviewed by Peer Review)
  - (3) Satisfactory External Audit reviews (when carried out)
  - (4) External Auditors are able to rely on the work of Internal Audit & Counter Fraud when forming their opinion on the Authority's accounts.
  - (5) Audits completed to plan (90% of high risk audits completed)
  - (6) Satisfactory responses received from clients by means of end of year questionnaires.

**Management of Internal Audit Activities**

52. The Chief Internal Auditor will ensure that the work of the Internal Audit section is of value to the Authority. This will be achieved by ensuring that the work carried out achieves its purpose as included in this charter and that all individual auditors have demonstrated conformance with the Code of Ethics and Standards.
53. The priorities of the Internal Audit section will be determined annually using a risk based methodology and in consideration with the Authority's overall objectives. The risk-based approach will take into account the risk management framework and risk appetite levels along with each directorate's performance as reported to the Governance and Audit and Standards Committee. Details of how the plan will be delivered are contained in the Internal Audit Strategy along with any reliance placed on other sources of assurance work.
54. The Annual Audit Plan will be reviewed in response to changes in the Authority's risks, operations, systems and controls at least once during the year.

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**February 2022**  
**Author: Elizabeth Goodwin Chief Internal Auditor**  
This Charter and Code of Ethics are agreed by

.....  
Elizabeth Goodwin  
Chief Internal Auditor  
Date

.....  
Chris Ward  
s151 Officer & Director of Finance and Resources  
Date

.....  
Cllr Madden  
Chair of Governance and Audit and Standards Committee  
Date

- Related Papers:**  
Audit Strategy and Audit Annual Plans  
Public Sector Internal Audit Standards and Code of Ethics  
Accounts and Audit Regulations (updated)

## **Code of Ethics**

### **Extract from the Public Sector Internal Audit Standards 2017**

#### **Public sector requirement**

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the Code of Ethics as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

#### **Components**

1 Principles that are relevant to the profession and practice of internal auditing;

2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

#### **Applicability and Enforcement**

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

#### **Public sector interpretation**

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.



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**1 Integrity**

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

**2 Objectivity**

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

**3 Confidentiality**

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Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

**4 Competency**

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.

4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.

4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

**Public sector requirement**

Internal Auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life, information on which can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)

## **Assurance Services**

**Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

**Developing systems audit:** in which:

- the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
- programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

**Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.

**Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

**Fraud and irregularity investigations:** Internal audit will also provide specialist skills and knowledge to lead on fraud/ irregularity investigations, and ascertain the effectiveness of fraud prevention controls and detection processes.

**Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

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<b>Title of meeting:</b>	Governance & Audit & Standards Committee
<b>Date of meeting:</b>	4 <sup>th</sup> March 2022
<b>Subject:</b>	Anti-Fraud Bribery & Corruption Policy
<b>Report by:</b>	Elizabeth Goodwin - Chief Internal Auditor
<b>Wards affected:</b>	Not applicable
<b>Key decision:</b>	No
<b>Full Council decision:</b>	No

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## **1 Purpose of report**

- 1.1 To update Members of this Committee following a review of the Anti-fraud Bribery and Corruption policy. There is one minor change relating to an amendment of Deputy Chief Executive and Monitoring Officer to Monitoring Officer.

## **2 Recommendations**

It is recommended that Members of the Governance and Audit and Standards Committee:

- 2.1 Note the Anti-Fraud Bribery & Corruption Policy, Appendix A, where there is one minor change relating to a job title amendment.

## **3 Background**

- 3.1 This policy sets out the requirements for the Council in relation to combating fraud, bribery, corruption and dishonest dealings within and against the council.

## **4 Reasons for recommendations**

- 4.1 To make Members of the Committee aware of the Anti-Fraud, Bribery and Corruption policy and note the minor 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

## 7 Finance's comments:

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

.....  
Chief Internal Auditor

**Appendices: Appendix A - Anti-Fraud Bribery & Corruption 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

**Summary:**

- *This policy relates to suspected internal or external fraud, bribery, corruption and dishonest dealings that involve the council and or its Councillors, staff contractors, suppliers and partners.*
- *The responsibilities of individuals and designated officers and reporting arrangements.*

<b>ID</b>	
<b>Last Review Date</b>	<i>February 2022</i>
<b>Next Review Date</b>	<i>February 2024</i>
<b>Approval</b>	<i>Governance &amp; Audit &amp; Standards Committee</i>
<b>Policy Owner</b>	<i>Director of Finance &amp; IS &amp; S151 Officer</i>
<b>Policy Author</b>	<i>Chief Internal Auditor</i>
<b>Advice &amp; Guidance</b>	<i>Audit &amp; Counter Fraud</i>
<b>Location</b>	<i>PolicyHub</i>
<b>Related Documents</b>	<i>Whistleblowing Policy, Formal Action Policy, Code of Conduct, Gifts &amp; Hospitality, Tax Evasion Policy.</i>
<b>Applicability</b>	<i>All Councillors, staff, contractors, suppliers and partners.</i>

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## 1 Introduction

- 1.1 This policy sets out the requirements for the Council in relation to combating fraud, bribery, corruption and dishonest dealings within and against the council.

## 2 What is fraud, bribery, corruption and dishonesty?

- 2.1 The Fraud Act 2006 came fully into force on 15<sup>th</sup> January 2007. There is no simple definition of fraud although the courts have provided definitions applicable to specific cases. The 2006 Act provides for a general offence of fraud with three ways of committing it, which are by:

- False representation,
- Failing to disclose information
- Abuse of position.

It creates new offences of obtaining services dishonestly and of possessing, making and supplying articles for use in frauds.

- 2.2 The Bribery Act 2010, which was implemented 1<sup>st</sup> July 2011, created two general offences covering the offering, promising or giving of an advantage, and requesting, agreeing to receive or accepting an advantage. It also creates a new offence of failure by an organisation to prevent a bribe being paid for or on its behalf. In simple terms it is the act of taking or receiving something with the intention of influencing the recipient in some way favorable to the party providing the bribe.
- 2.3 The Council defines the term “corruption” as the giving or obtaining advantage through means which are illegitimate, immoral and or inconsistent with employees/ Councillors duties or the rights of others.
- 2.4 Dishonesty is an element of fraud and this has been judicially described as requiring knowledge by the defendant that what s/he was doing would be regarded as dishonest by honest people, although s/he should not escape a finding of dishonesty because s/he sets his or her own standards of dishonesty and does not regard as dishonest what s/he knows would be the normal standard of honest conduct.

## 3 Statement of intent

- 3.1 Portsmouth City Council is a public body, which administers substantial funds and property and is committed to protecting those funds to which it has been entrusted.
- 3.2 We expect the highest standards of conduct from Councillors, staff and all with whom we have any kind of business including:
- Other organisations
  - Contractors
  - Suppliers
  - Partners

- Agents
  - Intermediaries
  - And users of our services
- 3.3 We will not tolerate any level of fraud, bribery and corruption or dishonesty. Any suspected cases will be investigated promptly and thoroughly with appropriate action taken including, referral to the police and other relevant bodies.
- 3.4 The Council will take all steps to minimise the risk of fraud, bribery, corruption and dishonesty by ensuring that we:
- Carry out appropriate risk assessments throughout all levels of the Authority
  - Appropriately vet all potential employees prior to their employment with PCC
  - Have the right culture and top level commitment
  - Have a robust internal control framework, including clear and practical policies and procedures, which are effectively implemented, monitored and reviewed.
  - Perform our business activities with due diligence in a transparent and ethical manner
  - Encourage the reporting of suspected wrong doings
  - Publicise cases identified and action taken
  - Seek prosecutions and impose appropriate sanctions
  - Take appropriate action to recover any losses
- 3.5 The Code of Conduct for Employees includes a duty to report any suspected cases of fraud or corruption or dishonesty as an essential part of the process of protecting the Council, its property and reputation.
- 3.6 You should have no doubt that:
- Fraud, bribery, corruption and or dishonest dealings involving the Council by members of staff will normally be regarded as gross misconduct and may well result in summary dismissal.

## 4 Scope

- 4.1 This policy applies to any actual or suspected internal or external fraud, bribery, corruption and dishonest dealing that involve the Council and or its Councillors and staff. It also covers contractor, supplier, partner, agents, intermediaries and service users. To support the policy each service has its own anti-fraud, bribery, corruption and dishonesty strategy and procedures pertaining to those service users within their area.

## 5 Responsibility for the implementation of this policy

- 5.1 The primary responsibility for the prevention and detection of fraud, bribery and corruption rests with management. However we are all responsible for the implementation of this policy. In the context of this policy:
- 5.2 The Director of Finance & IS & S.151 Officer is responsible for:

### Proper administration of the Council's financial affairs

- Reporting to Council and External Audit if the Council, or one of its representatives makes, or is about to make, a decision which involves illegal expenditure or potential financial loss
- Directing investigations into financial irregularities
- Combating money laundering

#### 5.3 The Monitoring Officer is responsible for:

- Ensuring lawfulness and fairness in decision making
- Dealing with investigations into matters referred by the Governance & Audit & Standards Assessment Sub-committee and making reports or recommendations in respect of them to the Governance & Audit & Standards Consideration Sub-committee and
- Providing advice on:
  - the scope of powers to take decisions
  - Maladministration
  - Financial impropriety
  - Probity.

#### 5.4 Managers are responsible for:

- Maintaining internal control systems and ensuring that the Council's resources and activities are properly applied in the manner intended
- Identifying the risks to systems and procedures
- Developing and maintaining effective controls to prevent and detect fraud, bribery and corruption
- Ensuring that controls are complied with
- Responding to suspected cases of fraud and dishonesty pertaining to users of services within their area. (Cases of suspected internal fraud by staff or contractors etc. should be referred to Audit & Counter Fraud)
- Ensuring that suitably qualified staff are in place to carry out investigations where service user abuse is identified and that appropriate action is instigated if criminality is found. (All cases must be referred to the City Solicitor)

#### 5.5 You are responsible for:

- Your own conduct
- Contributing towards the maintenance of corporate standards
- Acting properly in the use of the Council's resources and in the handling and use of corporate funds
- Raising concerns under the Whistleblowing Policy if you believe you have good reason for thinking that there has been fraud, bribery, corruption or dishonest dealing with the Council. (In cases of service user abuse, please raise your concerns with the relevant service manager or Head of Service).

#### 5.6 Audit & Counter Fraud is responsible for:

- The independent appraisal of control systems and their operation

- Carrying out investigations, by suitably qualified staff, into suspected corporate irregularities as directed by the Investigation Steering Panel, whose members include the S.151 Officer, Monitoring Officer, and the Chief Internal Auditor (and or deputies).
- Recording all suspected or detected fraud, bribery or corruption pertaining to members of staff, contractors or external parties.

5.7 External Audit is responsible for:

- Reviewing the stewardship of public money
- Considering whether the Council has adequate arrangements in place to prevent fraud, bribery, corruption and dishonesty

5.8 Each Councillor is responsible for:

- Their own conduct
- Contributing to the maintenance of corporate standards.

## **6 Reporting Suspected Fraud, Bribery, Corruption and or Dishonest Dealings within the Council**

6.1 Please also be alert to the possibility that someone is not, or may not be, dealing honestly with the Council.

6.2 If you think you have grounds for suspicion of dishonesty, you should raise it with your manager, Audit & Counter Fraud or raise it under the Whistleblowing Policy. Such concerns will, so far as possible, be dealt with confidentially as described in that policy.

6.3 For suspected cases of service user fraud and or dishonesty please raise your concerns with your manager, service manager or section head.

## **7 Administration**

7.1 The Chief Internal Auditor will ensure that the Governance & Audit & Standards Committee are informed of any changes to this document.

See also: -  
Whistleblowing Policy  
Formal Action Policy  
Code of Conduct  
Gifts & Hospitality Policy