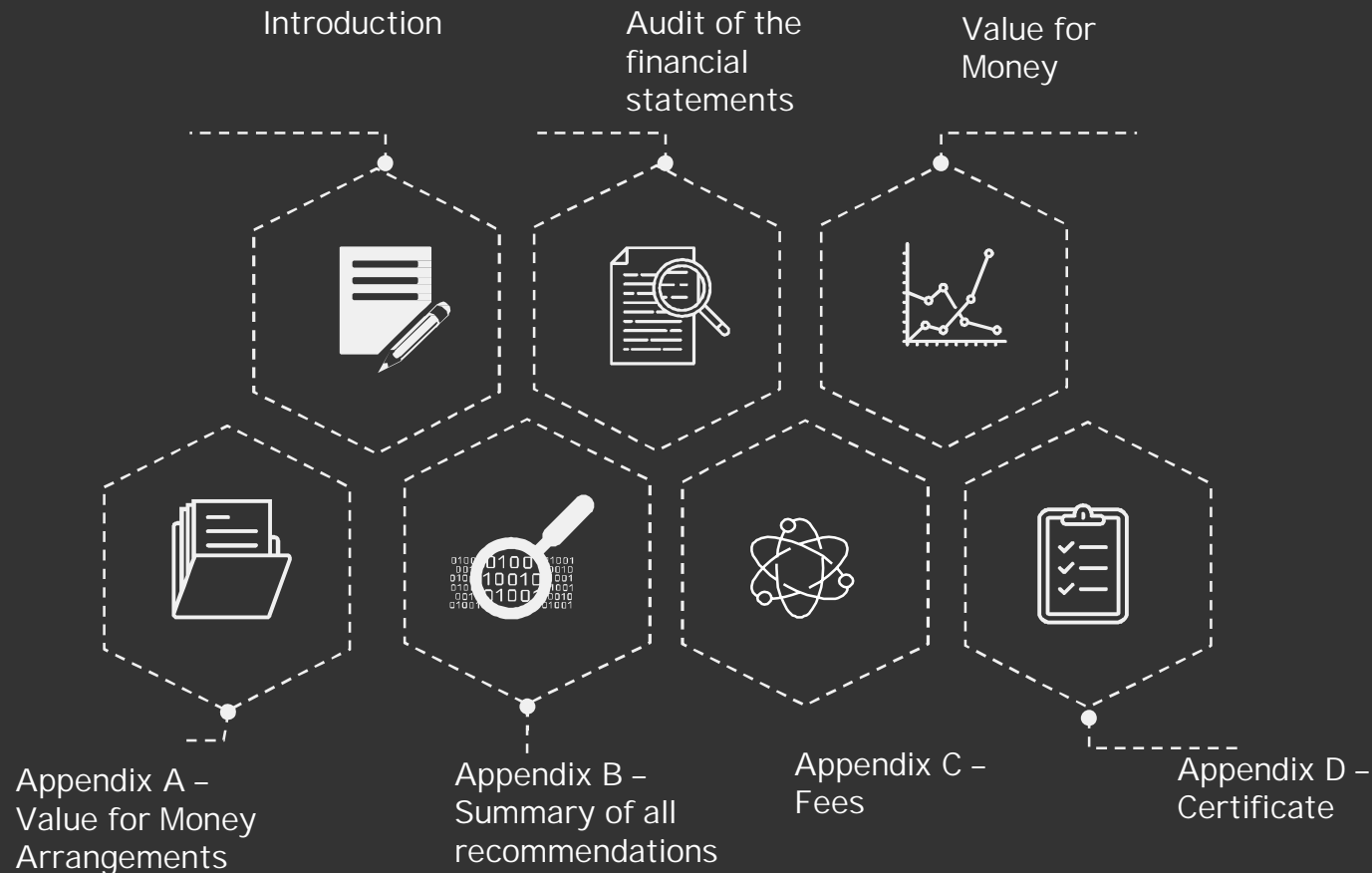


A photograph of a modern building's interior, featuring a long, brightly lit hallway with a polished floor and glass walls. The glass reflects the interior lights and the surrounding environment. A yellow rectangular box is overlaid on the left side of the image, containing the title and date of the report.

Portsmouth City Council Auditor's Annual Report

Year ended 31 March 2022

Contents



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 July 2021)” 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 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 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.



Introduction

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 value for money (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 2021/22 audit work in accordance with the Audit Plan that we issued on 20 July 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

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, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2021/22 Conclusions

Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 30 January 2024.
Going concern	We have concluded that the Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
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.
Whole of government accounts	We have performed the original procedures required by the National Audit Office (NAO), on the Whole of Government Accounts submission. We had no issues to report.
Certificate	We issued our certificate on 29 April 2024.

Audit of the financial statements

Key findings

The Narrative Statement and 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 30 January 2024, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 24 January 2024 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. We reported 1 internal control recommendation, relating to the Council's ability to support the valuations performed by its internal valuers, and 1 area for improvement, relating to granularity of accounting records for infrastructure assets, in the Audit Results Report.

Fraud Risk

Conclusion

Misstatements due to fraud or error

We did not identify any material weaknesses in the design of controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Inappropriate capitalisation of revenue expenditure

Our sample testing of additions to Property Plant & Equipment (PPE) and Revenue Expenditure Funded from Capital Under Statue (REFCUS):

- Found costs had been correctly classified as capital and included at the correct value.
- Did not identify any revenue items that were incorrectly classified as capital.

Our review of judgements taken by management found them to be reasonable.

Inappropriate recognition of trading and investment property income

Our sample testing of trading and investment property income:

- Did not identify any revenue items that were recognised at the wrong amount or in the wrong period.

Our review of judgements taken by management found them to be reasonable.

Significant risk

Conclusion

Valuation of Lakeside North Harbour asset

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

Audit of the financial statements

Significant risk	Conclusion
Infrastructure Asset Valuation	Changes were made to the Local Authority Accounting Code by CIPFA and DLUHC has issued a Statutory Instrument to temporarily change accounting rules in this area. The Statutory Instrument and Code update temporarily resolves the derecognition and existence issues identified above, and the Council has amended the disclosures in its financial statements to comply with the revised requirements. We are content with the changes made.
Valuation of Investment Property and Land and Buildings (valued using EUV & FV method)	<p>Our sample testing of investment property valuations:</p> <ul style="list-style-type: none"> • Did not identify any individual materially misstated properties. • Did not identify any issues with the approach used by the valuer in the calculation of the FV assets. <p>Our review of judgements taken by management found them to be reasonable.</p> <p>Our sample testing of Land and Buildings valued using the EUV and FV method:</p> <ul style="list-style-type: none"> • Identified an extrapolated misstatement above our reporting threshold but which is not material. • Did not identify any issues with the assumptions used or judgements made in the calculations of these valuations. <p>Our review of judgements taken by management found them to be reasonable.</p>
Areas of audit focus / Inherent risk	Conclusion
Pension Liability Valuation (inherent risk)	We have no matters to report regarding the Pension Liability Valuation. We found the net pension liability to be correctly valued.
Accounting for Covid-19 related government grants (inherent risk)	The accounting treatment adopted for Covid-19 related government grants accorded with the Council's assessment of whether it was acting as agent or principal. Our detailed testing of funding claimed identified no issues.
Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes (inherent risk)	The Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis, and related disclosure notes, have been restated appropriately following the change to internal reporting structures, and to have no matters to report as a result of the work performed.
Group accounts assessment (inherent risk)	We are satisfied that group accounts were not required for 2021/22. This is an area which will need to be kept under review going forward.
New ledger system (inherent risk)	We have not identified any issues regarding the completeness and accuracy of data migrated from the old ledger system to the new system.



Audit of the financial statements

Areas of audit focus / Inherent risk	Conclusion
Valuation of Land & Buildings valued at Depreciated Replacement Cost (DRC), and Housing Revenue Account (HRA) properties (inherent risk)	Our sample testing of Land and Buildings valued at Depreciated Replacement Cost: <ul style="list-style-type: none"><li data-bbox="577 379 1984 411">• Identified misstatements above our reporting threshold due to an arithmetical error across all DRC valuations.<li data-bbox="577 427 1854 459">• The total of these misstatements was not material in that it was below our performance materiality. This misstatement combined an extrapolated misstatement, which was not corrected, and a factual misstatement that was corrected.

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

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

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

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 24 January 2024 Governance and Audit and Standards Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Deputy Section 151 Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures in April 2023 and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 9 to 14. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

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

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
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	No significant risks identified	No significant weaknesses identified

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The Council is required to have arrangements in place to ensure proper resource management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements, via the annual governance statement, rests with management.

During our Value for Money planning procedures we did not identify any significant risks affecting the Council's Value for Money arrangements that would have a material impact on the Financial Sustainability reporting criteria of our VFM assessment.

21/22 Budget and Outturn:

As per the 2021/22 budget, the Council forecast a year-end General Fund balance of £21.3m (excluding schools). During the year, this budget was revised to a year-end forecast balance of £21.4m (a £2m decrease from 31 March 2021). The year-end outturn position included within the audited financial statements and the Narrative Statement confirmed that the year-end position was in line with the revised budget. In addition, this year-end balance remains above the minimum required General Fund balance of £8m.

As well as the decrease in the General Fund balance from the prior year, the earmarked reserves also decreased by £27.9m.

The Council held a COVID-19 reserve balance of £24.8m to hold funds that might be required to cover additional expenditure resulting from the Covid-19 pandemic. This is a decrease from £43.0m in prior year due to the lessening impact of Covid-19 on the Council.

The financial risks facing the Council were significant in 2021/22, but the indicators at year-end were that the Council's financial position was reasonably stable. It is therefore essential that wider organisational plans continue to focus on improving efficiency, capability and capacity and value for money as a whole.

Medium-term Forecast:

This forecast shows that the General Fund Balance will stay fairly consistent over the next 4 years, scheduled to increase steadily from 2022/23 peaking at £22.2m in 2024/25.

The Council approved net £1.0m of savings and an increase in Council Tax of 2.99% for 2022/23. The overall forecast for 2023/24 to 2025/26 is for the budget to be in balance, and no savings are required for 2023/24.

A Medium-Term Resource Strategy Reserve (MTRS) was previously set up with the fundamental aim for in-year expenditure to equal in-year income. This is now forecast to be achieved across all years of the Future Forecast to 2025/26 and as such, there will be no new savings required over the 3 years of this forecast (23/24 to 24/26). Above, we have confirmed that the 2021/22 outturn was in line with budget, which therefore confirms that the Council is on-track with their strategy.

This budgetary control contributes to the Council's ability to fund their planned initiatives internally rather than borrowing due to borrowing rates being significantly greater than investment rates.

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Savings Programme:

The Council has been required to make £104m in savings and efficiencies over the past 11 years in order to balance the Budget, ensuring that spending remains in line with income and funding levels. This represents 48% of all controllable spending.

To deliver this magnitude of savings, the City Council has followed a Medium Term Financial Strategy (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.

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

The Administration's budget savings proposals have been set out to align themselves with the above strategy. Savings with a lower impact will be prioritised and opportunities to make efficiencies or generate income will be favoured over reductions in services.

Capital Plan:

The capital programme is a key driver for the future financial sustainability of the Council and this is recognised in the Medium Term Financial Strategy. 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 very 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 therefore updated annually as capital investment plans mature. The latest update occurred in the last cabinet meeting before 2021/22 year-end on the 8 March 2022.

In response to the direct challenges of Covid-19 the Council, together with other partners including local NHS bodies, ASC providers and neighbouring councils has shown that it was able to react and respond quickly to meet the challenges created. This was in terms of social care, support to vulnerable individuals and families, safely re-opening schools, supporting suppliers and partners including the NHS and school transport. There has been a reduction in the impact that Covid-19 has had on the Council compared to 2020/21 however it has still had a meaningful impact on how the Council set their budget for 2021/22 and although its effects dwindled during the year, it was still something that had to be considered. Many service areas had to adapt to different ways of working to enable the Council to continue in an efficient and effective manner.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



Value for Money (continued)

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

The Council is required to have arrangements in place to ensure proper risk management and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement rests with management.

During our Value for Money planning procedures we did not identify any significant risks affecting the Council's Value for Money arrangements that would have a material impact on the Governance criteria of our VFM assessment.

Governance Structure:

The Council has a risk management policy that has been agreed by Governance and Audit and Standards Committee, and has been cascaded to staff through Policy Hub. 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 contributes to the identification of fraud alongside management information such as budget control.

The Annual Governance Statement sets out significant risk issues and mitigating actions which are identified and monitored by the Governance and Audit and Standards Committee. Risk and opportunity management is practised throughout the authority and in its partnership working arrangements. The authority's Risk Management Strategy is refreshed every couple of years and shows the alignment of strategic risks and priorities. There is a directorate risk register which is reviewed by the Executive Leadership Team, Cabinet and GAS Committee. The corporate leadership team are responsible for updating and monitoring business risks at directorate level.

The Council has a number of arrangements in place to ensure that appropriate decisions are made. Council decisions are made at either meetings of all members i.e. 'Full Council', at committees of Council or at a meeting of all executive members i.e. 'Cabinet'. As well as Full Council and Cabinet meetings, scrutiny of decisions is made within the Scrutiny Management Panel, and the Governance and Audit and Standards Committee. The Council also has a Monitoring Officer (also known as the City Solicitor at Portsmouth City Council) in place whose role it is to ensure that the Council at all times acts lawfully and within its own rules and procedures as set out in the Council's constitution.

Internal Audit:

The internal audit plan incorporates an appropriate level of coverage in respect of the Council's fundamental systems. Outcomes of external audit work during 2021/22 did not raise any significant deficiencies in the internal control framework.

Where deficiencies are picked up, they are reported in the Annual Governance Statement and any issues which are identified are included in its action plan, which will include concerns 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. These all include action plans to identify actions and allocate responsibility to address deficiencies. Breaches of internal control are highlighted through regular reporting on the IA audit plan.



Value for Money (continued)

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

Budget Setting:

Under the Council's Financial Rules (A1b) the full Council is also responsible for approving, or amending and approving, the budget as endorsed by the s151 officer and has a duty to consider the advice of the s151 Officer in relation to all financial matters.

Each autumn, the public and staff are consulted on the budget including Council Tax increases, priority service areas, and priority capital investment opportunities.

Savings targets for the next 3 years are established in the Portsmouth City Council Budget and Medium Term Budget Forecast which is approved by the Cabinet and Full Council each February. Each autumn, 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 and Resources 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 will be reconsidered in the autumn or winter if further budget pressures are identified.

The Constitution of the Council sets out the processes and procedures 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.

Code of Conduct:

As part of its constitution, the Council has a Code of Conduct which lets all staff know about 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.

As part of its constitution, the Council also has a Code of Conduct for members which sets out the general obligations of members, interests members are required to declare, and a requirement members not to participate in decisions where they have a prejudicial interest.

Alongside this, the register of interests is a key source of information that underpins the Council's considerations of its related party disclosures. Following enactment of the Localism Act 2011, failure by Members of a Council to comply with the requirement to register pecuniary and non-pecuniary interests is now a criminal offence.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.



Value for Money (continued)

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

The Council is required to have arrangements in place to ensure proper governance and the primary responsibility for these arrangements and reporting on the design and operation of these arrangements via the annual governance statement rests with management.

During our Value for Money planning procedures we did not identify any significant risks affecting the Council's Value for Money arrangements that would have a material impact on the Economy, Efficiency and Effectiveness criteria of our VFM assessment.

Identification of 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 process to budget managers & portfolio holders along with a Quarterly GF monitoring report to Cabinet. Portfolio Cash limit savings approved by City Council are deducted from the relevant Portfolio Cash limits from the financial year that they relate and these savings plans form part of the Original Budget approved by City Council in February of each year.

Strong budget discipline is maintained both during 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 cannot, and are not, counted towards the savings target.

As consequence of both budget discipline and the spending and income decisions taken over the last 10 to 12 years, a zero savings position in future years beyond 2023/24 is expected to be achievable, and will enable the General Fund balance to be maintained well in excess of its minimum level of £8m.

Assessing Performance:

Each directorate reports to the Governance and Audit and Standards Committee on its performance each quarter. In compiling reports, directors are asked to consider priority performance areas, projects and risks.

The Council have referred to the LGA Corporate Peer Challenge within the Narrative Report of the financial statements. This is an exercise whereby individuals from other Local Government organisations assess and provide recommendations on Portsmouth City Council's financial position as well as the processes they have in place. The report outlines eight areas for improvement. An action plan has been prepared in response to these recommendations and progress against this will be regularly reported on during 2022/23. We identified no significant areas for improvement from this report.

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 start of the cost of living crisis at the end of the period on the Council's operations and finances.



Value for Money (continued)

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

Delivering its Role:

Each autumn, the public and staff are consulted on the budget including Council Tax increases, priority service areas, and priority capital investment opportunities.

The city has strong partnership working arrangements, with other local authorities and with colleagues in the health sector, including the Clinical Commissioning Group ((CCG) – superseded in 2022/23 by the Integrated Care Board (ICB)), 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.

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/ICB 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.

Procuring Services in line with Relevant Legislation and Policies:

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 complied with.

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

The Governance and Audit and Standards Committee is responsible for the overview of Procurement and Contract Management. During the meetings the committee will discuss and review the performance of the Council and evaluate the extent that Portsmouth City Council is producing contracts for goods, works and services in a legally compliant and value for money basis.

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

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices



Building a better
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Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria

Findings

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

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:

- (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.

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

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.

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.

Appendix A – Summary of arrangements (continued)

Financial Sustainability

Reporting Sub-Criteria

Findings

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.

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

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

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.

Appendix A – Summary of arrangements (continued)

Financial Sustainability

Reporting Sub-Criteria

Findings

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.

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.

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

Appendix A – Summary of arrangements (continued)

Financial Sustainability

Reporting Sub-Criteria

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

Findings

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.

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.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

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

Findings

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 and 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.

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.

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.

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.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

Findings

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.

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.

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.

The Council's Constitution 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.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

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

Findings

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

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

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

The Council has 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 and 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: *"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.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

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)

Findings

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.

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.

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	<p>Forecast outturns are reported to the Leader of the Council and Cabinet each quarter. Remedial action is also reported when forecast overspends are reported.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The Council evaluates services and identifies areas of improvement in several ways. 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.</p> <p>The Council continually monitors and reviews 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 start of the cost of living crisis at the end of the period on the Council's operations and finances.</p>

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
<p>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</p>	<p>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.</p> <p>The city has strong partnership working arrangements, with other local authorities and with colleagues in the health sector, including the clinical commissioning group ((CCG) – superseded in 2022/23 by the Integrated Care Board (ICB)), 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.</p> <p>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/ICB 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.</p>
<p>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</p>	<p>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.</p> <p>The performance of contractors against their contracts is regularly recorded in the Council's contract register.</p> <p>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 realising the expected benefits aligned to the strategy of the Council and its future plans. ²⁵</p>

Appendix B – Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: Property Valuations	<p>Property valuations performed by the Council’s internal valuers – the Council needs to ensure that all key inputs are supported by sufficient documentary evidence which is retained for audit purposes and that a thorough review is undertaken of the valuations which could enable potential issues to be identified before the financial statements are prepared. The audit of the valuation of these assets requires the key inputs to be verified to source data and this has proved difficult to do as the valuation documents do not contain references to some of the supporting information. We realise that these issues have been exacerbated by turnover in the valuations team which is outside of management’s control. This area of the audit has taken extensive effort to perform and conclude, with some samples being revisited on multiple occasions.</p> <p>In relation to the point above, we would like to bring a particular matter to your attention. For the Ex-Delancey Assets and Elm Grove, Kingsway and Registry assets, our internal valuations specialists have noted that management has relied upon an historic acquisition price, whereas they would have expected a formal revaluation to have been performed at year-end. This is especially the case for the Delancey assets, as the interest now owned is not the same as that which was acquired. For these assets, our specialists concluded that the value as at 31 March 2022 was within the expected range. However, we recommend that the Council ensure an up to date valuation of these properties is prepared for the 2022/23 financial statements.</p>	<p>New systems and processes have been implemented to ensure all key inputs are documented within the body of the valuation document, and all assumptions justified. We are also implementing a system of peer review for all valuations to offer an additional layer of checks.</p> <p>It is important that it is recognised that the auditors are working to higher and more rigorous regulatory requirements in relation to the audit and this requires more work, so additional audit time was incurred as a result of the significant number of questions raised by the auditors for proof of evidence over and above that previously accepted by the auditors.</p> <p>For acquired sites, unless there is specific evidence to suggest a change in values to the value, the purchase price often reflects the best evidence available to support the valuation. As noted by the auditor the appointed specialist has concluded the valuations was within the expected range, suggesting the approach adopted on this occasion was reasonable. Each asset is reviewed and the appropriate valuation adopted at the date of valuation.</p>

Appendix B – Summary of all recommendations [continued]

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
Financial statements: Infrastructure Asset Valuation	Develop more granular accounting records and/or further supportable estimation techniques to allow for infrastructure assets and components to be derecognised when they are replaced, and to demonstrate the continued existence of assets accounted for.	Like most other local authorities, we do not hold historic records for many of these long life assets therefore disaggregating the larger assets into individual assets and/or components is both not practical or even possible, or would be subject to arbitrary or estimated splits. In particular PFI life cycle replacement costs (nearly 50% of the total) cannot be broken down but simply reflect the appropriate figure from the PFI model. We will however continue to assess this in line with further information from CIPFA as to future accounting requirements.
Value for Money	As a result of the VFM procedures we have carried out we have no recommendations to make.	N/A

Appendix C – Fees

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 July 2021)”.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee – Code work	115,067	115,067	115,067
2021/22 proposed scale fee rebasing amount (Note 1)	63,344	TBC	
2020/21 fee variation determined by PSAA (Note 2)			57,736
2021/22 PSAA expected additional minimal core fees (Note 3):			
• VFM	14,735	10,000 to 19,000	
• ISA 540 accounting estimates		4,400	
2021/22 proposed fee variation – other (Note 4)	77,492		
Total Fees	270,638	TBC	172,803

For 2021/22 the scale fee will be re-assessed to take into account a number of risk factors which includes procedures performed to address the risk profile of the Council and additional work to address the increase in Regulatory standards.

- (1) The 2021/22 proposed fee includes an amount for rebasing of the scale fee. The background to the proposed rebasing has been reported in prior years.
- (2) The 2020/21 additional fee related principally to rebasing of the scale fee, additional work performed in relation to areas of audit risk (PPE and IP valuations, pensions, PFI, group accounts assessment, C-19 grants, CIES/EFA restatement), and changes to auditing standards and the Code. This is final, and has been agreed with PSAA.
- (3) In September 2022, PSAA published ‘Additional information for 2021/22 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). We have calculated a total fee for these areas for Portsmouth CC of £14,735, which is at the bottom end of the range for both aspects.
- (4) Proposed fee variation is for work performed in the following areas: Pension valuation, PPE/IP valuations, prior period adjustments, new ledger system implementation, Covid-19 grant accounting and enhanced going concern disclosures, work of EY specialists on pensions and PPE/IP valuations, infrastructure assets accounting, and the impact of the audit duration on required audit procedures.

All elements of the proposed additional fees for 2021/22 (points 1, 3 and 4 above) remain subject to approval by PSAA and agreement with the S151 Officer.

We confirm we have not undertaken any non-audit work.

Appendix C – Fees Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.



Appendix D – Certificate

Certificate

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PORTSMOUTH CITY COUNCIL

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2022 issued on 30 January 2024 we reported that, in our opinion, the financial statements:

- gave a true and fair view of the financial position of Portsmouth City Council as at 31 March 2022 and of its expenditure and income for the year then ended;
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Delay in certification of completion of the audit

In our report dated 30 January 2024, we explained that we could not formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Portsmouth City Council. This confirmation has now been received.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion and no matters have come to our attention that would have resulted in a different opinion on the financial statements or additional exception reporting on significant weaknesses in the Authority's value for money arrangements.

We certify that we have completed the audit of the accounts of Portsmouth City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Andrew Brittain (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
29 April 2024

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