

Portsmouth City Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 from 1 April 2015’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of Responsibilities. This report is intended solely for the use of the members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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 Steve Varley, 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.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Governance & Audit & Standards Committee – on the work carried out to discharge our statutory audit responsibilities, together with any governance issues identified. This report summarises findings from the 2015/16 audit, which is substantially complete. It includes messages arising from our audit of the financial statements and the results of our work to assess arrangements to secure economy, efficiency and effectiveness in Portsmouth City Council's use of resources.

We show below the results and our conclusions on the significant areas of the audit.

Status of the audit	<p>We have substantially completed our audit of the financial statements for the year ended 2015/16. Subject to satisfactory completion of the following outstanding items we will issue an audit opinion in accordance with Appendix C:</p> <ul style="list-style-type: none"> • reviewing the outstanding samples for our testing of expenditure • reviewing the outstanding confirmations of investments • reviewing the final version of the financial statements • completing the subsequent events review • receipt of the signed management representation letter <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the financial statements.</p> <p>We expect to conclude that Portsmouth City Council has put in place proper arrangements to secure value for money in its use of resources.</p> <p>We are required to perform procedures required by the National Audit Office (NAO) for the Whole of Government Accounts submission. We are currently concluding our work in this area and will report any matters arising to the Governance & Audit & Standards Committee.</p>
Objections	<p>Under the Accounts and Audit regulations 2015 members of the public can, for a period of 30 working days, ask questions of the Council and raise objections with external auditors.</p> <p>The period ran from 1 July to 11 August 2016 and we received two objections to the 2015/16 accounts from a member of the public.</p> <p>The first objection related to the Council's use of capital grant funding relating to the City Deal awarded to Portsmouth and Southampton in 2013. We are currently considering whether this objection is eligible as it appears to relate to items of account before the 2015/16 financial year, which are not within our scope to consider. In addition, the objection was received on 12 August which is outside the prescribed 30 working day period for the lodging of objections under the regulations.</p> <p>The second objection asks whether a Lender Option Borrower Option (LOBO) loan that the Council entered into in 2003, with renegotiated terms in 2007, represents value for money. This is a common objection across a number of local authorities. We anticipate that we will accept this objection as it met the criteria for consideration.</p> <p>We have been able to conclude that the objections raised do not have an impact on our financial statement opinion. This is because we do not</p>

believe that they represent a risk of material misstatement in relation to items in the 2015/16 statement of accounts.

Our value for money conclusion considers whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources in 2015/16. We do not consider that either objection indicates that the Council had improper arrangements in 2015/16.

We anticipate issuing our audit opinion and value for money conclusion, but cannot issue our certificate until all objections are resolved.

Audit differences

There are no unadjusted or adjusted audit differences that we need to report to you.

Scope and materiality

In our audit plan presented at the 11March 2016 Governance & Audit & Standards Committee meeting, we set materiality of £11.45 million when deciding on our audit procedures. We have reassessed this based on the Council's actual results and we have reduced materiality to £10.77 million. This reflects the decrease in expenditure from the prior year.

The threshold for reporting audit differences which have an impact on the financial statements, has also decreased from £572,000 to £538,000. The basis of our assessment is 2% of gross operating expenditure, which is consistent with prior years.

We carried out our work in accordance with the Audit Plan.

Significant audit risks

We identified the following audit risks during our planning, and reported them in our audit plan:

- risk of fraud in revenue recognition relating to the improper capitalisation of expenditure
- risk of management override

Section 3, 'Addressing audit risks', sets out how we have gained audit assurance over those issues and others identified during the audit.

We identified the following risk relating to our Value for Money Conclusion:

- delivering the savings required to achieve its medium term financial plans

Section 4, 'Value for Money', sets out the findings from our work relating to this risk.

There are no significant issues arising from our audit that we need to report to you.

Other reporting issues	The Department for Transport has indicated that the Council should submit Harbour Accounts for the Commercial Port within nine months of the balance sheet date. The Council have not received official communication of the requirement, and therefore have not produced accounts to date. If the requirement is confirmed this would mean accounts cover the financial years 2012/13 to 2015/16 will need to be prepared and subject to external audit to meet this statutory duty.
Control observations	We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements and which the Council does not know about.

We would like to take this opportunity to thank the Council's staff for their assistance during the audit.

Helen Thompson
Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements, and any planned changes in future.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- report by exception on the AGS;
- consider and report any matters that prevent us being satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

This report also contains our findings on any areas of audit emphasis and our views on any significant deficiencies in internal control or the Council's accounting policies and key judgements.

We also review and report to the National Audit Office on the Whole of Government Accounts return. The extent of our review is specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks when we planned our audit, and reported them in our Audit Plan. We set out below how we have gained the necessary audit assurance.

A significant audit risk is an inherent risk which is both more likely to happen and has a greater effect if it does happen; so it requires special audit consideration. For significant risks, we obtain a relevant understanding of the entity's controls and assess their design and implementation.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate 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>We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Reviewed accounting estimates for evidence of management bias. • Evaluated the business rationale for significant unusual transactions. 	<ul style="list-style-type: none"> • From our procedures in relation to journal entries we have not identified any indication management override of controls. • Our review of accounting estimates relating to the Local Government Pension Scheme, the Council's PFI schemes and Property, Plant and Equipment, has found that estimates are reasonable, and there was no indication of bias in the calculation of the estimates. • From our review of the general ledger, and other audit procedures we have not identified any significant or unusual transactions which are outside the usual course of business for Portsmouth City Council.
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>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.</p> <p>We consider that the risk at the Council relates to the improper capitalisation of expenditure.</p>	<ul style="list-style-type: none"> • Tested additions to property, plant and equipment, specifically considering whether the items have been capitalised appropriately. 	<ul style="list-style-type: none"> • From our testing of additions to property, plant and equipment, we have found that the items have been capitalised appropriately.

We also identified the following 'other' audit risks.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>Better Care Fund The Better Care Fund was introduced from 1 April 2015. It creates a local single pooled budget to incentivise the NHS and local government to work more closely together. This will require new disclosures in the financial statements for the first time in 2015/16.</p>	<p>Developed our understanding of the contractual and operational arrangements between Portsmouth City Council and Portsmouth Clinical Commissioning Group. Gained an understanding of the proposed accounting treatment and ensure proper disclosure in your financial statements.</p>	<p>We held a joint meeting with the CCG and their auditor to gain an understanding of the arrangements between the Council and the CCG for the better care fund. We reviewed the contractual arrangements relating to the better care fund, and confirmed the treatment in the financial statements is appropriate in accordance with the 2015-16 Code.</p>
<p>Investment Properties The Council's property investment strategy has led to the acquisition of a number of properties in the year, which are to be classified as investment properties. The 2015/16 Code of Practice on Local Authority Accounting has introduced the requirement for Councils to apply IFRS 13 Fair Value Measurement. This change in the Code requires investment properties to be recognised at fair value.</p>	<p>Reviewed the basis for classifying these assets as investment properties. Reviewed the valuation of investment properties to ensure the treatment complies with the requirements of IFRS 13 and the Code.</p>	<p>We have reviewed the judgement for classifying the assets as investment properties, and concluded that the treatment is appropriate in accordance with the 2015-16 Code. The valuation of these assets complies with the requirements of IFRS 13 and the 2015-16 Code.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell the Council significant findings from the audit and any other matters significant to oversight of the Council's financial reporting process, including the following:

- qualitative aspects of accounting practices, estimates and disclosures;
- matters specifically required by other auditing standards to be reported to those charged with governance, e.g. issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- any significant difficulties encountered during the audit; and
- other audit matters of governance interest.

We have one matter to report.

The Department for Transport has indicated that the Council should submit Harbour Accounts for the Commercial Port within nine months of the balance sheet date. To date the Council have not received official communication of the requirement, and therefore have not produced accounts to date. This is consistent with prior years, however if the requirement is confirmed this would mean accounts cover the financial years 2012/13 to 2015/16 will need to be prepared and subject to external audit to meet this statutory duty.

Control themes and observations

It is the Council's responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their actual adequacy and effectiveness. Our responsibility as auditor is to consider whether the Council has arrangements to satisfy itself that this is indeed the case.

We have tested controls only as far as necessary to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that it is not misleading or inconsistent with other information arising from the audit or our knowledge of the Council.

Request for written representations

We have asked for a representation letter to gain management's confirmation on a number of matters, as outlined in Appendix D.

Whole of Government Accounts

We also review and report to the National Audit Office on the Council's Whole of Government Accounts return. The extent of our review is specified by the National Audit Office.

The local government data collection tool (DCT) and guidance was published mid-July 2016, but HM Treasury identified some issues with the DCT and were working to resolve these. Due to the delays encountered HM Treasury confirmed in its guidance that the deadline for local government bodies to submit the DCT was 12 August; and extended the deadline for auditors' work to be completed to 21 October.

We are currently concluding our work in this area and will report any matters arising to the Governance & Audit & Standards Committee.

Considering Objections

We have received two objections to the 2015/16 statement of accounts from a member of the public. We are currently considering our response to both objections.

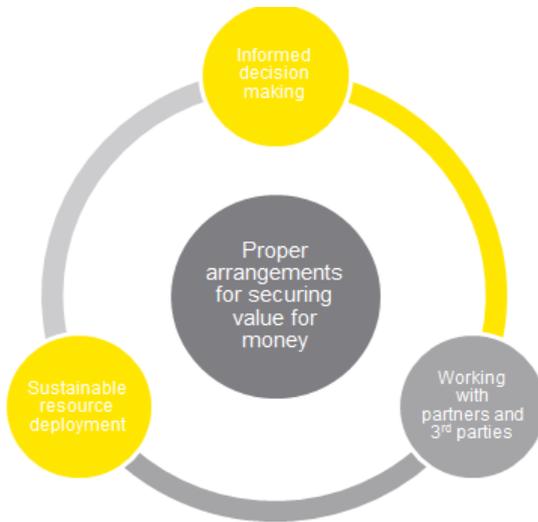
From our initial work to consider the objections we have concluded that the matters raised in the objections relate to decisions taken by the Council in prior periods, which do not have a material impact on the 2015/16 financial statements.

The first objection relates to amounts included in the financial statements relating to a Lender option Borrower option loan between the Council and another party. We have taken into account initial legal advice provided on similar matters raised elsewhere which indicates that councils are not generally acting unlawfully when entering into Lender option Borrower option agreements. The value of this loan is £11 million, which is only just above materiality for the audit.

The second objection relates to the lawfulness of the Council's use of capital receipts, particularly with regard to the Property Fund. We have not identified any unlawful capital expenditure through our standard audit procedures and our initial work on this issue indicates the Council has complied with the terms of the capital grant funding received.

From this initial work, we have concluded that the questions raised in the objections do not affect our audit opinion on the 2015/16 financial statements. Therefore, we anticipate issuing our audit opinion, but cannot issue our certificate until all objections are resolved.

4. Value for money



We must consider whether the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They consist of the Council's arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

Overall conclusion

We identified one significant risk for these criteria:

- Delivering the savings required to achieve its medium term financial plans.

We have performed the procedures as outlined in our audit plan, and our findings are set out in the table overleaf.

We therefore expect to conclude that the Council has proper arrangements to secure value for money in its use of resources.

Significant risks

The table below presents the findings of our planned work.

VFM risk identified in our audit plan	Has an impact on arrangements for:	Key findings
<p>Delivering the savings required</p> <p>The impact of continuing reductions in funding from central government is a challenge for the Council. The Council's medium-term financial strategy identifies the need to make savings of £31m over the period 2016/17 to 2018/19.</p> <p>Whilst the Council has a good record of delivering required savings over previous years, we consider there is a significant risk in relation to Council's ability to realise the savings required as this requires more fundamental changes to the delivery of services.</p>	<ul style="list-style-type: none"> Deploying resources in a sustainable manner 	<p>We reviewed the Medium Term Finance Strategy (MTFS) 2016-2020 and the associated savings plans for 2016/17.</p> <p>We reviewed the assumptions used to develop the MTFS; and we consider these prudent.</p> <p>The Council has identified a savings requirement of £11 million in 2016/17, with an additional £24 million savings for the period 2017/18 - 2019/20.</p> <p>The proposals to deliver these savings in 2016/17 reflect the consultation responses from autumn 2015, and we consider these to be realistic and balanced.</p> <p>We noted that budget pressures remain within Children & Education services, relating to looked after children, and Health & Social Care, relating to adult social care. The saving proposals in the MTFS recognise the underlying pressures in these services, and the saving targets for these services have been reduced to allow these services to address pressures existing in 2015/16.</p> <p>The Council has also taken the opportunity to levy an additional 2% increase in Council Tax to support adult social care, which will assist in addressing cost pressures in the service.</p>

Appendix A – Independence

We confirm that there are no changes in our assessment of independence since our confirmation in the Audit Plan dated 11 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we do not know of any relationships that may affect the independence and objectivity of the firm and which auditing and ethical standards require us to report to you.

We consider that our independence in this context is a matter that should be reviewed both by the Council and by us. It is therefore important that you consider any facts you know about and come to a view. If you wish to discuss any matters concerning our independence, we will be happy to do so at the Governance & Audit & Standards Committee on 16 September 2016.

We confirm that we have met the reporting requirements to the Governance & Audit & Standards Committee as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan for doing this was set out in the Audit Plan of 11 March 2016.

Appendix B – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	149,438 ¹	149,438
Certification of claims and returns	17,797	17,797

Note 1: We communicated to the Committee that the scale fee set by the PSAA does not cover responding to objections, and would result in a variation to the scale fee. As the work relating to the objections is currently on going, we are not able to provide an estimate of the additional scale fee for this work. We will seek to minimise the cost of responding to the objection, and will provide an update to the Governance & Audit & Standards Committee on completion of the work.

We confirm we have not undertaken any non-audit work outside the PSAA's requirements.

Appendix C – Draft audit report

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

Opinion on the Authority's financial statements

We have audited the financial statements of Portsmouth City Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 5;
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Portsmouth City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance & Information Services and auditor

As explained more fully in the Statement of Responsibilities set out on page 33, the Director of Finance & Information Services is responsible for the preparation of the Statement of Accounts 2015/16, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied

and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance & Information Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Portsmouth City Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception¹

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on Portsmouth City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2015, as to whether Portsmouth City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Portsmouth City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Portsmouth City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2015, we are satisfied that, in all significant respects, Portsmouth City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to conclude on the local elector objections and the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack.

We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts 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.

Helen Thompson (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton
XX September 2016

Appendix D – Management representation letter

[To be prepared on the entity's letterhead]

[Date]

Helen Thompson
Ernst & Young
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

This representation letter is provided in connection with your audit of the financial statements of Portsmouth City Council ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Portsmouth City Council as of 31 March 2016 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 that are free from material misstatement, whether due to fraud or error.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence and
 - Appropriate alternative evidence to support entries in the financial statements, where the originals were destroyed in the fire.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet, and Governance & Audit & Standards Committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held

through the year to the most recent meeting on the following date: 16 September 2016.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.

- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

I Use of the Work of an Expert

1. We agree with the findings of AON Hewitt engaged to provide IAS19 valuation services for the defined benefit pension scheme as set out in Note 34 and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records.
2. We believe the measurement processes employed, including related assumptions and models, in determining accounting estimates is appropriate and consistent with our expectations.
3. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours Faithfully,

Finance Director

I confirm that this letter has been discussed and agreed at the Governance & Audit & Standards Committee on 16 September 2016

Chairman of Governance & Audit & Standards Committee

Appendix E – Required communication with the Governance & Audit & Standards Committee

We must provide certain communications to audit committees of our UK clients, as detailed below:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view on the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Any significant difficulties encountered during the audit ▶ Any significant matters arising from the audit and discussed with management ▶ Written representations requested from management ▶ Expected modifications to the audit report ▶ Any other matters significant to the oversight of the financial reporting process 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements relating to prior periods ▶ A request for any uncorrected misstatement to be corrected ▶ In writing, any significant corrected misstatements 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud we have identified or information obtained indicating that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ non-disclosure by management ▶ inappropriate authorisation and approval of transactions ▶ disagreement over disclosures ▶ non-compliance with laws and regulations ▶ difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>We have received all requested confirmations.</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Ask the audit committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and which the audit committee may know about 	<p>We have not identified any material instances of non-compliance with laws and regulations.</p>
<p>Independence</p> <p>Communication of all significant facts and matters bearing on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ the principal threats ▶ safeguards adopted and their effectiveness ▶ an overall assessment of threats and safeguards ▶ information about the general policies and processes to maintain objectivity and independence 	<p>Audit Plan and Audit Results Report</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Audit Results Report</p>
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan <p>Breakdown of fee information at the completion of the audit</p>	<p>Audit Plan</p> <p>Audit Results Report</p>
<p>Certification work</p> <p>Summary of certification work undertaken</p>	<p>Certification Report</p>

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