

Portsmouth City Council

Governance and Audit and Standards Committee

External Audit Progress Report

January 2017



Building a better
working world

Members of the Governance and Audit and Standards Committee
Portsmouth City Council
Civic Offices
Guildhall Square
Portsmouth
Hampshire
PO1 2BG

5 January 2017

Dear Committee Members

External Audit Progress Report

We are pleased to attach our External Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of the final position against the Council's 2015/16 audit plan, and our initial plans for the 2016/17 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

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

Yours faithfully

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

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Public Sector Audit Appointments Ltd (PSAA) has issued the ‘Statement of responsibilities of auditors and audited bodies’. 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’ (updated September 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 progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Governance Committee, and is prepared for the sole use 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.

2015/16 work program

Our 2015/16 Annual Audit Letter was presented to the Governance and Audit and Standards Committee in November 2016.

This letter communicated to Members and external stakeholders, including members of the public, the key issues arising from our audit work. We had already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the September 2016 Governance and Audit and Standards Committee.

Our 2015/16 Annual Audit Letter also informed Members that our work on the certification of the Council's claims and returns was ongoing in November 2016. We are presenting our annual report on the certification of claims and returns to the Governance and Audit and Standards Committee today. This work is now complete.

Our overall work program in relation to the 2015/16 financial year will be completed when we conclude on one outstanding objection from a member of the public regarding Portsmouth City Council's use of a lender option borrower option loan. At the time of writing this progress report, we are in the process of drafting a Statement of Reasons in response to the objection. Our conclusions will be shared with the objector and the Council when our work in connection with the objection is completed.

2016/17 audit

Fee letter

We issued our 2016/17 fee letter to Portsmouth City Council on 5th April 2016. This was reported to the July 2016 Governance and Audit and Standards Committee.

Financial Statements

We adopt a risk based approach to the audit and, as part of our continuous planning, we have held a number of meetings and exchanges with key officers to ensure the 2016/17 audit runs as smoothly as possible and to identify any risks and technical accounting issues that require our early consideration. Recent exchanges include:

- November 2016 – Teleconference calls with Portsmouth City Council's Financial Accountant; the Technical and Finance Planning Team manager; and the head of internal audit to reflect on what went well in 2015/16 and to update our understanding of the challenges and for 2016/17.
- December 2016 – Teleconference call with the Head of Information Resources to identify any key changes to systems (none identified). A meeting on-site at Portsmouth City Council with the Financial Accountant and the Technical and Finance Planning Team manager to discuss early preparation for the 2016/17 audit.

From last year's audit and our initial meetings we note that an EU investigation is currently underway into whether transactions between Portsmouth City Council and MMD (Shipping Services) Ltd have breached state aid regulations. MMD (Shipping Services) Ltd is wholly owned by the Council and, as the 2015/16 draft Council accounts disclose, has received loan advances of £5.8 million from the Council. We will monitor progress and developments in this case; management responses; and disclosure in the Council's 2016/17 Governance Statement and Accounts.

We are scheduled to complete our initial planning work, including the walkthrough of key financial systems, during the week commencing 30 January 2017. The testing of controls and early substantive testing is scheduled for February 2017. A copy of our overall audit plan, together with an update on progress, will be provided to the Governance and Audit and Standards Committee in March 2017.

Internal Audit

Internal Audit is a key part of Portsmouth City Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing. As previously noted, we have already begun to liaise with the Head of Internal Audit.

Post statements visit

Our post statements visit and testing is planned to take place between 3 July and 29 July 2017. We have commenced early discussions on the working papers required in support of the audit.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries. These tools facilitate our analysis of these data sets and allow us to focus our testing in areas of highest risk.

Value for money

Our initial risk assessment is ongoing. From our November and December 2016 meetings with management, we are aware that there are areas where the Council is seeking to develop more innovative and commercial ways of working and to reduce its dependency on central government grants. As the Council itself noted in the Governance Statement for 2015/16, this will present on-going governance challenges. At the same time, we are aware that the Council budgeted to make significant savings during 2016/17 (and the three years thereafter); faces rising costs in a number of areas; and has also recently streamlined some risk management processes.

We will report any value for money risks we identify and a proposed work program to address them in our audit plan which is scheduled for the March 2017 Governance and Audit and Standards Committee meeting.

Changes to the audit team

We have recently reviewed our manager portfolios in light of staff changes, and this has resulted in a change for the 2016/17 audit at Portsmouth City Council. Jo Taylor will take over the audit manager role from Adam Swain, and has already met some staff at the Council. We have discussed with your officers how we will manage the transition of responsibilities over the coming months to ensure a smooth handover. Both Adam and Jo will attend the Committee in January 2017 as part of this transition process.

Other issues of interest

Sector briefings

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016/17 Governance and Audit and Standards Committee cycle.

Audit phase	EY Timetable	Deliverable	Report to Committee	Status
High level planning	Ongoing	Audit Fee Letter	Issued 5 th April 2016 Reported July 2016	Completed
Risk assessment and setting of scope of audit	Dec 2016 - January 2017	Audit Plan	March 2017	In progress
Testing of routine processes and controls	February 2017	Progress Report	March 2017	Work is planned to start in February 2017.
Year-end audit	July 2017	Audit results report to those charged with governance. Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions. Audit Completion certificate	To be confirmed	Work is planned to occur in July 2017.

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