



Private and Confidential January 2018

Portsmouth City Council Civic Offices Guildhall Square Portsmouth PO1 2BG

Dear Governance & Audit & Standards Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Governance & Audit & Standards Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

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

We welcome the opportunity to discuss this report with you on 02 February 2018 as well as understand whether there are other matters which you consider may influence our audit.

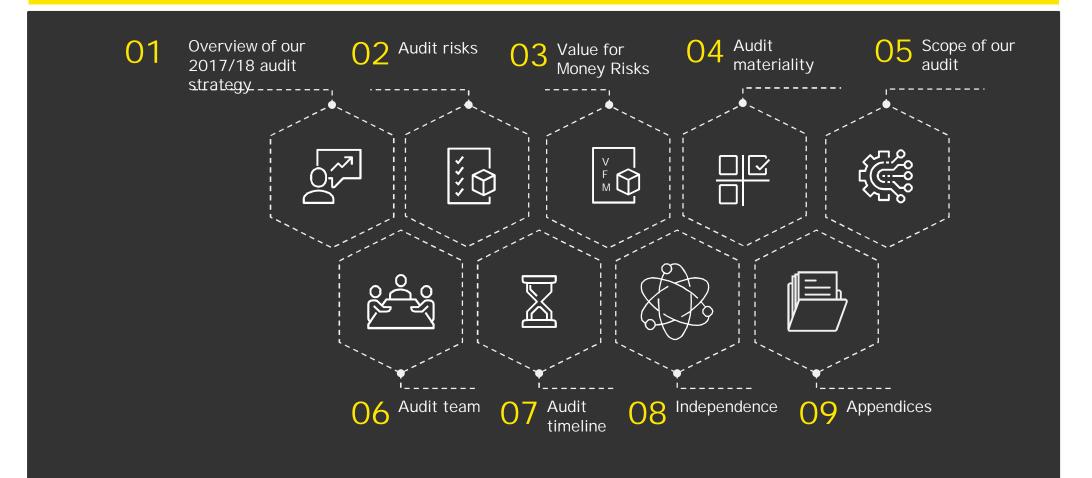
Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Enc

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (<a href="www.PSAA.co.uk">www.PSAA.co.uk</a>). 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 February 2017)" 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 & Audit & Standards Committee and management of Portsmouth City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance & Audit & Standards Committee, and management of Portsmouth City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance & Audit & 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.





# Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Governance & Audit & Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk / area of focus	Risk identified	Change from PY	Details
Risk of Management Override	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
Valuation of Land and Buildings	Other risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Classification of Investment Properties	Other risk	No change in risk or focus	The Local Authority Accounting Code of Practice states that an investment property is one which is held solely to earn rentals or for capital appreciation, or both. Property which is held for any other purpose (even if also earning rentals or achieving capital appreciation) must be classified as property, plant and equipment. It is a requirement that the Council's treatment of property held on its balance sheet conforms to these classifications.
PFI Accounting	Other risk	No change in risk or focus	The Council has four PFI arrangements, two of which are material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016/17. We will review the accounting entries and disclosures in relation to PFI in detail in 2017/18, with a focus on any significant changes since the expert's review in the previous year.
Pension Liability Valuation	Other risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.  Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Group Accounts	Other risk	To be revisited and critically evaluated in 2017/18	IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Council has interests in other entities, it needs to undertake qualitative and quantitative assessments to inform its decisions as to whether group accounts are required. This is an area of potential complexity and judgment requiring regular review.



# Overview of our 2017/18 audit strategy (continued)

Planning

£11m

Materiality has been set at £11m, which represents 2% of the prior years gross expenditure on provision of services.

Performance materiality

£8.25m

Performance materiality has been set at £8.25m, which represents 75% of planning materiality. By exception, we have set performance materiality at £5.5m (50% of planning materiality) for Property, Plant and Equipment - see section 4 for further details.

Audit differences

£0.55m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund) greater than £0.55m. Other misstatements identified will be communicated to the extent that they merit the attention of the Governance & Audit & Standards Committee.

# Overview of our 2017/18 audit strategy

### Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- § Our audit opinion on whether the financial statements of Portsmouth City Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- § Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- § Strategic, operational and financial risks relevant to the financial statements;
- § Developments in financial reporting and auditing standards;
- § The quality of systems and processes;
- § Changes in the business and regulatory environment; and
- § Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



# Audit risks

# Our response to significant risks

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

Risk of Management Override\*

### Financial statement impact

We have assessed that the risk of management override is most likely to affect the estimates in the financial statements, as well as capitalisation of expenditure, and accounting policies. These areas impact both on the Balance Sheet and Comprehensive Income and Expenditure Statement.

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

We identify and respond to this fraud risk on every audit engagement.

### What will we do?

- Identify fraud risks during the planning stages.
- Enquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider the effectiveness of management's controls designed to address the risk of fraud.
- Determine an appropriate strategy to address those identified risks of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Review accounting estimates for evidence of management bias, including PPE valuation, IAS19 pension estimates, PFI valuation and Minimum Revenue Provision.
- Evaluate the business rationale for significant unusual transactions.
- Review capitalised expenditure to confirm appropriate treatment.
- Review accounting policies for compliance with the Local Authority Accounting Code of Practice, and the appropriateness of any tailoring.

# Audit risks

# Other areas of audit focus

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

### What is the risk/area of focus?

# Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the yearend balances recorded in the balance sheet.

Classification of Investment Properties The Local Authority Accounting Code of Practice states that an investment property is one which is held solely to earn rentals or for capital appreciation, or both. Property which is held for any other purpose (even if also earning rentals or achieving capital appreciation) must be classified as property, plant and equipment. It is a requirement that the Council's treatment of property held on its balance sheet conforms to these classifications. Review of assets classified as investment property in 2016/17 identified a number which did not meet the definition and resulted in a significant amendment to the Council's financial statements.

### What will we do?

### We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property;
- Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; and
- Test to confirm that accounting entries have been correctly processed in the financial statements.

### We will:

- · Sample test investment properties to confirm they meet the definitions set out in the Code; and
- Perform an overall review of the Council's investment property asset register for indications of inappropriate classification.

# Other areas of audit focus (continued)

### What is the risk/area of focus?

### PFI accounting

The Council has four PFI arrangements, two of which are material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016/17. We will review the accounting entries and disclosures in relation to PFI in detail in 2017/18, with a focus on any significant changes since the expert's review in the previous year.

### Pension Asset Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### **Group Accounts**

IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Council has interests in other entities, it needs to undertake qualitative and quantitative assessments to inform its decisions as to whether group accounts are required. This is an area of potential complexity and judgment requiring regular review.

### What will we do?

### We will:

- Review assurances brought forward from prior years regarding the appropriateness of the PFI financial models;
- Review the PFI financial models for any significant changes, and if identified consider engaging relevant experts to review the models to ensure they are still working as expected;
- Ensure the PFI accounting models have been updated for any service or other agreed variations and confirm consistency of current year models with prior year brought forward assurances; and
- Agree outputs of the models to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure, and review the completeness and accuracy of disclosures.

### We will:

- Liaise with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Portsmouth City Council;
- Assess the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

### We will:

- Ask the Council to update its group accounts assessment for all relevant entities and critically evaluate this as early in the audit cycle as possible; and
- Undertake our own assessment and compare this with the Council's review, to identify any areas where additional work may be required to form a conclusion on whether group accounts are required under the accounting standards.



# Value for Money

### Background

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

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- § Take informed decisions:
- § Deploy resources in a sustainable manner; and
- § Work with partners and other third parties.

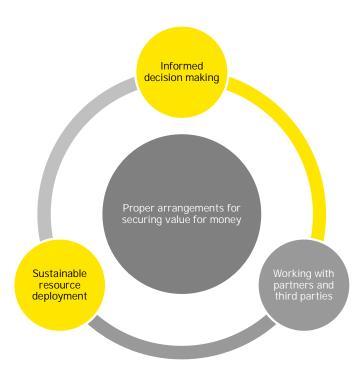
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks at the planning stage of our audit, but we will keep this assessment under review and update the Governance & Audit & Standards Committee as soon as possible if risks are identified during the remainder of our audit.





# **₽** Audit materiality

# Materiality

### Materiality

For planning purposes, materiality for 2017/18 has been set at £11m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Governance & Audit & Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

### Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £8.25m which represents 75% of planning materiality. The rationale for using 75% is based on the anticipation of identifying few or no errors during the audit. This expectation has been built on our experience of the Council in prior years (see below Specific materiality section for one area for which performance materiality has been set at a lower level).

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund. Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Committee, or are important from a qualitative perspective.

Specific materiality – We have set performance materiality at £5.5m (representing 50% of planning materiality) for Property, Plant and Equipment, based on the outcomes of our 2016/17 audit, which identified a number of errors in this area of the accounts. Our expectation is therefore that there may be a higher likelihood of errors in this area in 2017/18. We have also set a materiality of nil for remuneration disclosures, related party transactions, members' allowances and exit packages, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these areas.



# Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

### Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.
- 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

# Our Audit Process and Strategy (continued)

### **Audit Process Overview**

### Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

### Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

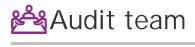
- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Governance & Audit & Standards Committee.

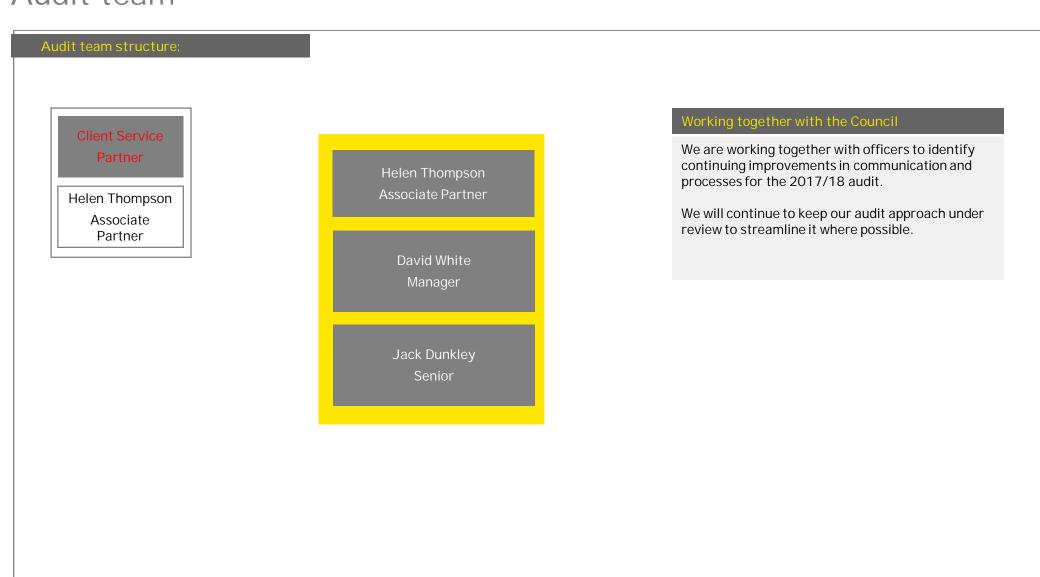
### Internal audit:

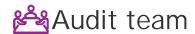
We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements, the Narrative Statement or the Annual Governance Statement.





# Audit team





# ∠ Audit team Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Tom Southall - Council's RICS registered internal PPE valuer
Pensions disclosure	PwC as consulting actuary appointed by the NAO, and EY internal pensions specialists  Aon Hewitt - Actuary to Hampshire Pension Fund

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.





# X Audit timeline

# Timetable of communication and deliverables

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Governance & Audit & Standards Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes Walkthrough of key systems and processes	December		
Risk assessment and setting of scopes	January		
Interim audit testing	February	Governance & Audit & Standards Committee	Audit Planning Report
	March	Governance & Audit & Standards Committee	Interim audit update
	April		
	May		
Year end audit	June		
Year end audit	July	Governance & Audit & Standards Committee	Audit Results Report
Audit Completion procedures		Committee	Audit opinions and completion certificates
	August		Annual Audit Letter





# Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

### Required communications

### Planning stage

- The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ► The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence.
- Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard

### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.



# Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

### **Overall Assessment**

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner and the audit engagement team have not been compromised.

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services have been undertaken, therefore the current ratio of non-audit fees to audit fees is zero. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

### Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

### Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.



# Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.



## Other communications

### EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017





# Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work	149.438	149,438	149,438
Certification of claims and returns (housing benefits)	17,797	17,797	17,196
Total fees	167,235	167,235	166,634

All fees exclude VAT

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For Portsmouth City Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- Officers meeting the agreed timetable of deliverables, especially in light of the earlier deadlines for the 2017/18 audit;
- Appropriate quality of documentation is provided by the Council;
- There is an effective control environment;
- Prompt responses are provided to our draft reports.; and
- Our accounts opinion and value for money conclusion being unqualified.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

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



# Appendix B Regulatory update

In previous reports to the Governance & Audit & Standards Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production an	d audit of the financial statements from 2017/18
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
Impact on Portsmouth City Council	These changes provide challenges for both the preparers and the auditors of the financial statements.
	We held a faster close workshop for clients in November 2017 to facilitate early discussion and sharing of ideas and good practice.
	We are working with the Council on ideas coming from the workshop, and other subsequently discussed with the audit team, for example:
	Streamlining the Statement of Accounts with a view to removing all non-material disclosure notes;
	<ul> <li>Bringing forward the commissioning and production of key information provided by specialists, such as IAS 19 pension information, and asset valuations;</li> </ul>
	Providing training to departmental finance staff regarding the requirements and implications of earlier closedown;
	<ul> <li>Re-ordering tasks from year-end to our interim visit, reducing year-end pressure;</li> <li>Holding regular meetings to discuss audit progress and issues identified, and how to resolve them efficiently.</li> </ul>



# Required communications with the Audit Committee

We have detailed the communications that we must provide to the Governance & Audit & Standards Committee. Our Reporting to you Required communications What is reported? When and where Terms of engagement Confirmation by the Governance & Audit & Standards Committee of acceptance of terms of The statement of responsibilities serves as the engagement as written in the engagement letter signed by both parties. formal terms of engagement between the PSAA's appointed auditors and audited bodies. Our responsibilities Reminder of our responsibilities as set out in the engagement letter The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. Communication of the planned scope and timing of the audit, any limitations and the Planning and audit Audit planning report significant risks identified. approach When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team Significant findings from Our view about the significant qualitative aspects of accounting practices including Audit results report accounting policies, accounting estimates and financial statement disclosures the audit Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process



# Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<ul> <li>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</li> <li>Whether the events or conditions constitute a material uncertainty</li> <li>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report
Misstatements	<ul> <li>Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Corrected misstatements that are significant</li> <li>Material misstatements corrected by management</li> </ul>	Audit results report
Fraud	<ul> <li>Enquiries of the Governance &amp; Audit &amp; Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>A discussion of any other matters related to fraud</li> </ul>	Audit results report
Related parties	<ul> <li>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>Non-disclosure by management</li> <li>Inappropriate authorisation and approval of transactions</li> <li>Disagreement over disclosures</li> <li>Non-compliance with laws and regulations</li> <li>Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit results report



# Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence  Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:  The principal threats  Safeguards adopted and their effectiveness  An overall assessment of threats and safeguards  Information about the general policies and process within the firm to maintain objectivity and independence	Audit planning report Audit results report
External confirmations	<ul> <li>Management's refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report
Consideration of laws and regulations	<ul> <li>Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>Enquiry of the Governance &amp; Audit &amp; Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	Audit results report
Internal controls	Significant deficiencies in internal controls identified during the audit	Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul> <li>Key audit matters that we will include in our auditor's report</li> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report
Fee Reporting	<ul> <li>Breakdown of fee information when the audit plan is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report



## Additional audit information

### Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

# by auditing standards

- Our responsibilities required Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  - Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
  - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - Concluding on the appropriateness of management's use of the going concern basis of accounting.
  - Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - Reading other information published with the financial statements, and reporting whether it is materially inconsistent with our understanding and the financial statements; and
  - Maintaining auditor independence.

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

### Materiality determines:

The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.