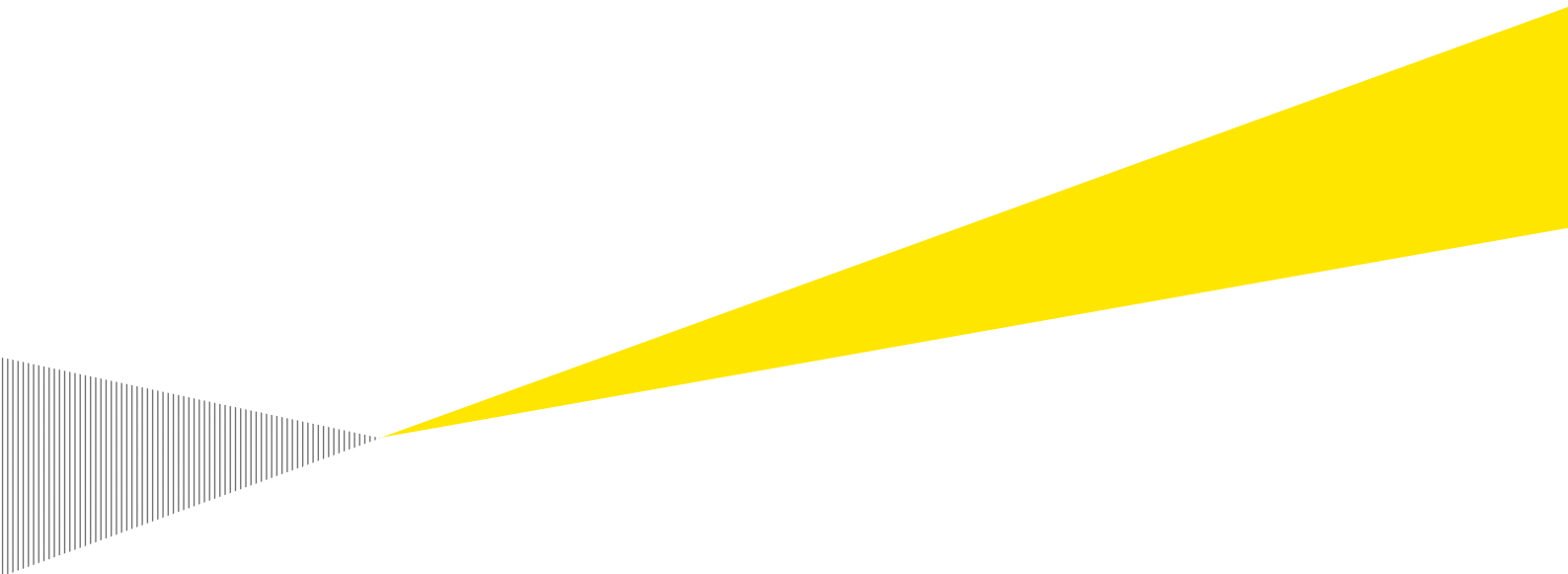


Portsmouth City Council

Governance & Audit & Standards Committee Progress Report

January 2018



Building a better
working world

Governance & Audit & Standards Committee
Portsmouth City Council
Civic Offices
Guildhall Square
Portsmouth
PO12BG

24 January 2018

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Governance & Audit & Standards Committee in October 2017. The purpose of this report is to provide the Committee with an update on the outstanding aspects of our 2015/16 and 2016/17 audits, and on progress to date on our 2017/18 audit.

Our audits are 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 at your meeting on 02 February 2018.

Yours faithfully

Helen Thompson
Associate Partner
For and on behalf of 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](http://www.psaa.co.uk) (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 Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit 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.

Progress on external audits

2015/16 LOBO Objection

As previously reported to the Committee, an objection was raised against the Council's 2015/16 Statement of Accounts by a local elector, in relation to Lender Option Borrower Option (LOBO) loans. We have fully discharged our duties with respect to the objection, and it has not been upheld.

As the work required to review the objection was in addition to the standard audit work on which the 2015/16 scale fee was based, we have proposed a scale fee variation. This is in line with common practice where work is needed to address objections. The proposed fee variation is £13,462, which is based on the hours taken to complete the additional work, and hourly rates set by Public Sector Audit Appointments Ltd (PSAA). We have been in discussion with the Director of Finance with regard to the fee variation, and this was agreed with him on 22 January. Final agreement of the proposed fee with PSAA remains outstanding.

2016/17 audit – progress on outstanding matters and audit completion

Resourcing challenges for the auditor led to delays in resolving issues identified towards the end of the audit and as the committee is aware, it was not possible to give an audit opinion on the 2016/17 financial statements by 30 September. The main issues outstanding at the time of the October committee were in relation to the accounting treatment for the Wightlink lease, and HRA depreciation. Resolution of these issues were pre-requisites of agreement of a final version of the financial statements, completion of our remaining work to conclude the audit, and our review of the Council's Whole of Government Accounts submission.

We can confirm that, subsequent to the October committee, work on the outstanding areas of the financial statements has been completed. Significant amendments were required to the statements as a result of the final treatment of the Wightlink lease, along with a number of other amendments arising from other work already completed. We have now agreed and reviewed all the required amendments to the financial statements. Our work on the Whole of Government Accounts (which could not be commenced until the final financial statements were agreed) is also now complete, and the audit opinion and certificate were signed on 22 January 2018.

Our Annual Audit Letter for 2016/17 will be completed and agreed with officers following the conclusion of the audit. It is intended to be presented to the 9 March meeting of the GAS Committee.

2016/17 housing benefit grant claim certification

Our work on the Council's 2016/17 housing benefit grant claim was completed in November and the certified claim submitted to DWP by the 30 November 2017 deadline. The claim was amended and a qualification letter was issued. Full details are provided in our 2016/17 grant claims certification report which will be presented to the 2 February GAS Committee meeting.

2017/18 audit – progress to date

There have been changes to our audit team for 2017/18, with Jack Dunkley taking over as Senior, leading the day-to-day work of the on-site team, and David White taking over as Manager, with responsibility for the ongoing supervision and management of the engagement.

Our planning procedures for 2017/18 are virtually complete, and our audit plan will be presented to the 2 February GAS Committee meeting. We have also undertaken our walkthroughs of key financial systems for 2017/18 as part of our planning and risk assessment audit work.

Early discussions have been held with officers around the planning and timing of the 2017/18 audit, with a view to ensuring smooth progress and to avoid a repetition of the issues occurring in 2016/17. The following actions have been taken or are planned going forward:

- An initial meeting with key finance staff (including the Deputy Director of Finance) was held in December 2017 to set expectations, learn lessons from 2016/17, and set out the timetable and key milestones for the audit.
- A review of data provided for our data analytics tools was undertaken in December 2017, aimed at streamlining the process, maximising the usefulness of the tools, and improving the efficiency of sample selection and the associated provision of audit evidence.
- As much substantive testing as possible will be pulled forward into our interim audit visit in February, to relieve pressure at year-end. A schedule of required reports and working papers will be provided ahead of the visit to help ensure the intended work can fully completed.
- We plan to meet the Council's internal valuer of property, plant and equipment (PPE) at the interim visit, to understand the work undertaken on PPE valuation, and to make early progress on our audit work in this key area of focus.
- Consideration is being given to setting up a workshop, jointly hosted by key finance staff and EY, at the interim visit, to raise awareness of the purpose of external audit, key audit methods used, the importance of providing quality audit evidence, and of responding promptly to audit queries and information requests.
- Weekly catch-up meetings will be held between external audit and key finance staff during the interim and year-end visits, to identify, discuss and resolve audit issues promptly and efficiently.

In addition, we will maintain ongoing dialogue with officers throughout the audit, and will provide a further update on audit progress to the Committee at its meeting in March.

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