

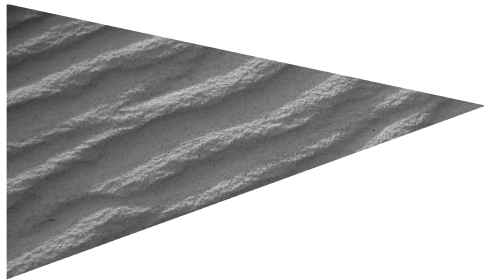
Portsmouth City Council

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

26 September 2014



Building a better
working world

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Executive summary

Key findings

➤ Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Governance and Audit and Standards Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- As of 29 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

Value for money

- We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent 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. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- The Council is also responsible for putting in place 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 2013/14 financial statements
 - Report on any exception on the governance statement or other information included in the foreword
 - Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)
- In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.
- As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.
- This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant and other audit risks (including fraud risks)		
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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.</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; and ➤ Evaluated the business rationale for significant unusual transactions. 	<ul style="list-style-type: none"> ➤ Journals testing did not identify any instances that suggested management override. ➤ Our review of accounting estimates did not identify any examples of management bias ➤ No unusual items were identified.
Other risks		
<p>A number of schools, including Milton Cross, are expected to achieve academy status in 13/14. We will review the accounting for transfers, including any related impairments, and whether they are disclosed correctly.</p>	<ul style="list-style-type: none"> ➤ We reviewed the accounting for transfers, including related impairments, and whether they were disclosed correctly. 	<ul style="list-style-type: none"> ➤ We concluded the five schools that were transferred on achieving Academy status had been correctly accounted for.
<p>This is the first full year of account for the Continuing Healthcare pooled budget, which now represents a material item of account.</p>	<ul style="list-style-type: none"> ➤ We reviewed the Council's accounting for its share of the income, expenditure, asset and liabilities of the pooled budgets; and whether they were correctly presented in the accounts. 	<ul style="list-style-type: none"> ➤ We concluded the pooled budget disclosures were materially accurate.
<p>From April 2013, there were changes to the arrangements for business rates that require the Council to make a provision for appeals against rating list valuations.</p>	<ul style="list-style-type: none"> ➤ We reviewed the reasonableness of the provision and whether it is accounted for and disclosed correctly. 	<ul style="list-style-type: none"> ➤ We concluded the Council had conducted a very thorough exercise and that the provision was accounted for correctly under IAS 37, and was properly disclosed
<p>Following a High Court determination the scheme's actuaries are determining the Council's share of the Pilots National Pension Fund's liabilities.</p>	<ul style="list-style-type: none"> ➤ We reviewed the reasonableness of the liability and whether it is accounted for and disclosed correctly. 	<ul style="list-style-type: none"> ➤ We concluded that the Council's liability was reasonably calculated and correctly disclosed within the financial statements.

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
 - Receipt of a Letter of Representation
 - SERCOP analysis
 - Debtors
 - Investments
 - Assorted income and expenditure tests
- Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Corrected Misstatements

- Our audit identified a number of misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work.
- We do not consider any of these to be individually significant but we have set out the overall context and nature in Appendix 1 to this report.

Uncorrected Misstatements

- We have not identified any misstatements within the draft financial statements that management has not adjusted.

Other Matters

- As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - Qualitative aspects of your accounting practices; estimates and disclosures;
 - Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
 - Any significant difficulties encountered during the audit; and
 - Other audit matters of governance interest
- In our Audit Plan we set out our plan to rely on the operation of controls over Housing Rents, Accounts Payable and Accounts Receivable. During the year, we determined it would be more efficient to take a substantive audit approach.
- The Council introduced a de minimus for capitalisation of new asset several years ago but the asset register still includes assets below this threshold that were capitalised before its introduction. The management of this increases the level of input required by the capital accountant, and the number of revaluations that need to be conducted by the AMS team (who are currently tasked with revaluing 20% of assets per year). Additionally the AMS team is tasked with valuing non-property assets, for which they are reliant on information held elsewhere in the Council.
- The Council should conduct a review of the asset register to ensure only assets over its de minimus are included and review its approach to revaluations to enable efficiencies.
- We understand the DfT has now indicated Harbour Accounts should be submitted within 9 months of the balance sheet date, but that this has not been communicated to the Council yet. This would mean the 2012/13 and 2013/14 accounts will need to be prepared and audited to meet this statutory duty.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

- It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- We have tested the controls of the Council only to the extent necessary for us 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 complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - It is consistent with other information that we are aware of from our audit of the financial statements.
- We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

- We have requested a management representation letter to gain management's confirmation in relation to a number of matters. In addition to the standard representations, we have requested the following specific representation:
 - Non-Domestic rates
 - As a new accounting estimate, there is an element of subjectivity involved in calculating the potential impact of future appeals.

Whole of Government Accounts

- Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- We are currently concluding our work in this area and will report any matters that arise to the Governance and Audit and Standards Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Portsmouth City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criterion 1 - Arrangements for securing financial resilience

"Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future"

- We did not identify any significant risks in relation to this criterion in our audit plan but reviewed your arrangements for financial governance, financial planning and financial control.
- We did not identify any notable concerns about financial governance and control, but concluded the Council could strengthen its financial planning arrangements. While corporate processes carefully forecast the medium-term financial position and drive the setting of prudent annual budgets, there is scope to strengthen portfolio and service planning.
- While the Council has relatively high levels of reserves, they are largely committed and the Council is forecasting real challenges over the medium-term. Developing the 2015/16 budget is testing services, and so identifying further efficiencies to mitigate the need for cuts will only become more challenging in 2016/17 and 2017/18. The Council needs to give proper attention to the longer-term issues and challenges it faces and approach these in a planned and strategic manner.
- In this environment, where the Council is actively reviewing its offering to the people and economy of Portsmouth, it is clearly critical it also keeps the focus on how it works, and the potential for transformational change and internal efficiencies. The Council's 'plan on a page' includes internal 'Shaping the Future' objectives (to be more financially independent of central government, and transform the customer relationship), which underpin the Council's long-term financial resilience.
- The Council has reflected on the learning from current corporate transformation projects, and is working to evolve these into an expanded change programme. Delivering this will require considerable corporate and service management capacity, and strong leadership, to ensure proper links are made to service planning. Releasing this capacity will be a major challenge against a background of reducing senior management posts, increasing operational temperature, and the delivery of other major change projects such as the Better Care Fund and the Care Act 2014.
- The Business Intervention Team is planned to support this change agenda but the model relies on taking staff with appropriate skills out of services, to then work with them to identify opportunities. The quality and quantity of backfill for their posts will be a key part of ensuring services have sufficient capacity to meaningfully engage and deliver projects that will inevitably demand significant inputs and focus.

Arrangements to secure economy, efficiency and effectiveness

Criterion 2 - Arrangements for securing economy, efficiency and effectiveness

“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”

- We did not identify any significant risks in relation to this criterion in our audit plan but did identify two specific risks
 - Last year the Council developed a new corporate plan-on-a-page, redeveloped performance and risk management arrangements, and strengthened the corporate expectation that services prepare three year indicative financial plans. We therefore reviewed how corporate arrangements were bedding in and focused on one service, as a probe.
 - The aggregation of existing funding streams into the Better Care Fund has transformed and accelerated the integration agenda, as the Council and Portsmouth CCG need to agree how to use these funds to achieve better outcomes for patients. We reviewed the two year local plan submitted in February 2014, and assessed progress with the development of the linked 5 year strategy and plans for the expansion of pooled budgets in April 2015.
 - The performance and risk management arrangements have strengthened significantly throughout the year, and continual learning has led to the creation of a panel to review service performance reports before they go to the Strategic Directors Board, and triangulate them against other sources of intelligence. This now means the senior management team has a rounded view of progress against its corporate objectives.
 - We selected Adult Social Care to review, as this covers a significant proportion of the Council’s total expenditure, and found their performance management arrangements were still developing. They are rolling-out a new business information tool but need to tailor this to meet local needs and to track progress against the objectives set out in their business plan, as they are still reliant on pulling a rounded data set together from separate systems. A training and engagement programme will be needed to embed this. The service does not have a three year business plan and is focussed on addressing a three-fold challenge, the service currently has an underlying deficit that it is meeting by exhausting its portfolio reserves, is working to identify the £4.9m of savings needed in 2015/16, and faces demand and legislative cost pressures of £4m.
 - The Better Care Fund plan largely enshrined an existing direction of travel around admissions avoidance, strengthening re-ablement and establishing integrated locality teams. Implementation has been slower than initially expected and the financial and operational implications have not yet been fully worked through. This remains a key area of development for the Council and Portsmouth CCG, working in partnership with local providers. The Health and Well-being Board needs to drive the delivery of this significant change programme; underpinned by the development of a vision for sustainable integrated care services in Portsmouth.
 - We also reviewed your arrangements for prioritising resources, and improving efficiency and productivity. We considered these were generally adequate but the Council needs to continue looking outside the organisation to increase its learning from best practice elsewhere, by employing peer reviews and using benchmarking to help identify opportunities for further efficiencies.
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Independence

Independence

- We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 13 March 2014
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the Audit Director and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.
- We confirm that we have met the reporting requirements to the Governance and Audit and Standards Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 13 March 2014
- If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance and Audit and Standards Committee on 26 September 2014.

Audit fees

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	198,180	198,180	
Certification of claims and returns	24,460	28,600	Following reductions in certification requirements, the Audit Commission revised the scale fee down to £20,060 in year. However we are also required to audit two additional transport infrastructure grants, with an associated fee of £4,400.
Non-audit work	0	0	

- Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- At the time of reporting, grant claim certification work is in its early stages and so actual outturn may vary from budget, which is the basis for the proposed final fee above.
- We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Appendix 1 - Corrected audit misstatements

Balance Sheet and Statement of Comprehensive Income and Expenditure

- The following misstatements, identified during the course of our audit, have been corrected by management within the revised financial statements and warrant communicating to you.

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit) £000s	Debit/(Credit) £000s
Correction of REFCUS enties relating to Solent LEP loans.	Usable reserves - Capital grants unapplied	F	6,675	
	Usable reserves - General fund		(6,675)	
	Long term debtors		6,675	
	Capital grants and contributions			(6,675)
	Planning services income			(2,000)
	Planning services expense			2,000
Reclassification of PFI principal repayments in 2014/15.	Other Short term liabilities	F	(654)	
	Other long term liabilities		654	
Under-depreciation of non-current assets.	Acc Dep'n on Council dwellings	F	(411)	
	Acc Dep'n Other land and buildings		(291)	
	Depreciation (HRA)			411
	Depreciation (GF)			291
Cumulative effect of uncorrected misstatement			5,973	(5,973)

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

Appendix 1 - Corrected audit misstatements

Disclosures

➤ The following misstatements, identified during the course of our audit, have been corrected by management within the revised financial statements and warrant communicating to you.

Disclosure	Description of misstatement
1. Accounting policies	The accounting policy note does not make reference to the £10k de minimus for capitalisation of assets.
2. Technical review of accounts	<ul style="list-style-type: none"> - Explanatory Foreword. - CIES - Note 1, Accounting Policies. - Note 6, Disclosure of the Impact of a Change In Accounting Policy. - Note 9, Property, Plant & Equipment. - Note 20, Unusable Reserves. - Note 26, Pooled Budgets. - Note 34, Leases. - Collection Fund. - HRA Notes.
3. Note 33 - Capital Expenditure and Capital Financing	Note should separate out REFCUS under Capital Investment heading

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (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. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.

