

Portsmouth City Council

Audit Committee Progress Report

June 2016



Building a better
working world

Governance & Audit & Standards Committee

7 June 2016

Dear Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations. We will bring a progress report to each Committee where we have a specific update for the Committee. For other key audit deliverables you can expect from us throughout the audit please see the timetable attached at the end of this report.

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

Contents

2015/16 audit	2
Timetable	5
Appendix A: 2014/15 Final Fees	6

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

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update 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..

2015/16 audit

Fee letter

We issued our 2015/16 fee letter to the Council in April 2015.

Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning we have continued to meet key officers regularly to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity. Since the last Committee meeting in March, we have held the following meetings:

- ▶ 27 April: Director of Finance and Information Service, City Solicitor and Director of HR, Legal & Performance.
- ▶ Regular liaison meetings with Internal Audit to discuss findings from their work and other issues relevant to our audit.
- ▶ Regular meetings with the Directorate Finance Manager and Group Accountant, and other officers, to discuss a range of audit issues, including the impact on Investment Properties of the new IFRS 13 Fair Valuation standard.

Planning and interim visit

We completed our walkthrough of the key financial systems in February/March 2016. We did not identify any significant issues from this work.

Our controls work is substantively complete and we will complete the remainder of this work in June.

There are no significant matters arising from our initial planning meetings or work that we need to bring to your attention at this stage.

We have continued to liaise with officers on their plans in relating to the requirements for highways network assets and the Better Care Fund. We held a joint meeting with officers from Portsmouth City Council and Portsmouth CCG to discuss the proposed accounting treatment for the Better Care Fund

Internal Audit

Internal Audit is a key part of the 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. For example, we have considered the head of internal audit opinion to inform our value for money conclusion risk assessment.

Post statements visit

Our audit visit is scheduled to commence on 4 July 2016. We have had early discussions in March with the Directorate Finance Manager and Group Accountant 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. We have received the data requested to date, and we will report any findings in relation to our testing in our audit results report in September 2016.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money

As reported to you in our audit plan, we identified one risk in relation to our value for money conclusion. This related to the ability of the Council to deliver the savings required in 2015/16. Our work to review the savings plans is on-going, at this stage we have nothing we wish to report.

Our assessment will continue throughout the audit and should anything come to our attention which may change this assessment we will update this Committee in due course.

Final fees for 2014/15

As reported to the committee previously we requested variations to the scale fee relating to our work in 2014/15. The proposed variations were £1,764 to the audit fee and £2,868 for the grant certification fee. Officers and members had agreed these; however, Public Sector Audit Appointments Ltd (PSAA) had not approved them.

PSAA has now approved for the scale fee variation, the final audit fee for 2014/15 is £201,014, and the final grant certification fee is £22,928.

We have included the letter confirming the outcome of these discussions as an appendix to this report.

Local appointment of auditors

We included in our January progress report details about the decision of the Department of Communities and Local Government (DCLG) not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. This will mean from 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 years. We should also note that there is no restriction on your current auditor re-tendering for the new contract. We would be happy to provide a verbal update at the July Audit Committee.

It is our intention that we will continue to keep you regularly updated throughout the process as more information becomes available to us and we will of course be happy to take any further questions you may have.

Accelerating your financial close arrangements

On 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made under the Local Audit and Accountability Act 2014 on 12 February 2015.

A key area of the regulations is that, from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements. The good news is that with good planning, communication and joint working, those deadlines are highly attainable.

The majority of local authorities are on the right trajectory, having met the current reporting deadlines consistently for the last few years; the challenge now is upping the speed of that trajectory to achieve the faster deadlines. We have included below some suggestions which will help achieve this new statutory deadline. We will continue to engage with officers to ensure that the Council is well placed to meet these new statutory deadlines.

As with any project, the key to success is in the planning, together with timely engagement and collaboration between the preparers of the financial statements and the auditors of those statements. We appreciate that each client starts from a slightly different base position. Therefore, there is no one size fits all solution. However, there are areas where consideration can be given now:

- ▶ revisit the current project timetable;
- ▶ carry out an early in-year financial hard close;
- ▶ review the format of your accounts;
- ▶ review your approach to estimates;
- ▶ review your year-end journal process;
- ▶ review the operation of your ledger system; and
- ▶ consider how fit for purpose is your current financial reporting system?

Over the coming year, we will organise regular meetings with your finance team and use this as a mechanism to discuss options for early close and early substantive testing. We will continue to provide the Committee with regular updates on our progress in this area. We are also happy to discuss the wider process with you in more detail when we next meet on 1 July 2016.

Other issues of interest

In addition to our formal reporting and deliverables, we provide practical business insights and updates on regulatory matters through our Sector Briefings. We presented our last briefing to the March Committee, and a new briefing is available. We will provide these updates to the democratic services team, who will circulate these to members.

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 2015/16 Audit Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	June 2015	Completed
Risk assessment and setting of scope of audit	Dec 2015 - March 2016	Audit Plan	March 2016	Completed
Testing of routine processes and controls	Feb - March 2016	Progress Report	June 2016	Completed
Year-end audit	July - September 2016	<p>Audit results report to those charged with governance</p> <p>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)</p> <p>Whole of Government Accounts Submission to NAO based on their group audit instructions</p> <p>Audit Completion certificate</p>	September 2016	Work is planned to start during July 2016.

Chris Ward
Director of Finance & Information Services
Portsmouth City Council
Civic Offices
Guildhall Square
Portsmouth
Hampshire
PO1 2BG

26 April 2016

Direct line: 07867 152471

Email: KHandy@uk.ey.com

Dear Chris

Portsmouth City Council – 2014/15 Final Fees

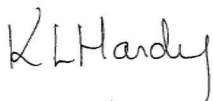
We issued our Audit Results Report in September 2015, and presented it to the Governance Audit and Standards Committee. We highlighted at the time that the audit fee for 2014/15 had not been finalised, as, while we had agreed a scale fee variation of £1,764 with officers and members, it had not been approved by Public Sector Audit Appointments Ltd (PSAA).

Similarly, we issued our Annual Certification Report in January 2016 which included a scale fee variation of £2,868. Again the additional fee had been agreed with officers and members but had not been approved by PSAA.

PSAA approval has since been received and to meet its reporting requirements I am formally writing to you to confirm the final audit and certification fees for 2014/15. The final audit fee for 2014/15 is £201,014, and the final grant certification fee is £22,928.

Please could you include this letter in the agenda for the next Governance Audit and Standards Committee meeting, as we are required to report this to 'those charged with governance'.

Yours sincerely



Kate Handy
Executive Director
Ernst & Young LLP
United Kingdom

Copy to: Councillor Bosher
Helen Thompson, Executive Director

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com