

Portsmouth City Council

Governance & Audit & Standards Committee Progress Report

February 2018



Building a better
working world

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

26 February 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 February 2018. The purpose of this report is to provide the Committee with an update on progress to date on our 2017/18 audit, including some of the ongoing actions noted in our update to the February meeting.

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 9 March 2018.

Yours faithfully

Helen Thompson
Associate Partner
For and on behalf of Ernst & Young LLP
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Contents

Progress on 2017/18 external audit.....	2
Appendix 1 – Faster Close Key Messages.....	4

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 (www.PSAA.co.uk).

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

The “Terms of Appointment (updated 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.

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 2017/18 external audit

In our progress report to the 02 February 2018 GAS Committee meeting, we noted a number of planned actions aimed at ensuring the smooth progress of our 2017/18 audit. We can now provide a further update against these, as follows:

- Work undertaken to streamline the process for provision of data for our analytics tools, and to make the use of their outputs more straightforward, has been ongoing. This has achieved positive early results, with more efficient selection of samples and a significant time saving for the finance team in the provision of supporting evidence for our interim audit testing of income and expenditure.
- Good progress has been made in completing the planned programme of interim substantive testing, with samples being tested for income and expenditure, payroll, related parties, property, plant and equipment (PPE), investment property, grant income, and journals. We have also updated our review of significant contracts. The challenge of meeting the faster close deadline of 31st July remains considerable, but the work completed at interim will make a significant contribution to doing so.
- Early work is underway to address some of the areas of focus identified in our audit plan, principally around the Council's group accounts assessment, valuation of land and buildings, investment property classification, accounting estimates and accounting policies (the last two forming part of our work to address the risk of management override).
- As part of our interim work on PPE, the audit senior has met with the Council's internal valuer, to understand the work undertaken on PPE valuation and to raise initial queries on the sample selected for testing in this area of the Council's accounts.
- We have held a workshop for finance staff, jointly-hosted by ourselves and senior finance team members, 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.
- We have held regular catch-up meetings with the finance team, to update on audit progress, discuss and resolve audit issues promptly, and to identify any further steps which may need to be put in place for the year-end audit visit.

Since we presented our 2017/18 Audit Plan to the 2 February 2018 meeting of the GAS Committee, we have received a clarification to our internal guidance around calculating materiality. As a result, we will not be setting a separate performance materiality level for our testing of Property, Plant and Equipment (PPE). We will instead apply the performance materiality that we will use for the rest of the financial statements to our work on PPE (£8.25m, being 75% of planning materiality), but will reduce the testing thresholds we use for PPE, to ensure our work remains focussed as communicated in our audit plan. The overall impact of this change is not significant – an increased level of work will be undertaken on PPE in recognition of the issues identified in that area of the financial statements in 2016/17, and the amount of work which results from this revised approach to materiality is closely similar to that which would have been undertaken using the separate performance materiality level set out in our audit plan.

As part of our interim audit visit in February, we have started our work on accounting estimates, as noted above. Through this initial work, we have confirmed that the Council revised its

approach to calculating the Minimum Revenue Provision (MRP) last year. Because the annual MRP estimate approaches our performance materiality, and the calculated historic over-provision of MRP which resulted from the change in method is significant, we will use our internal specialist to give us assurance over the Council's workings to re-calculate MRP. Use of our specialist to perform this work is likely to lead to a scale fee variation (as has been the case for other Councils which have revised their MRP calculations).

Our year-end audit is due to commence on 25 June 2018. In advance of this visit, we will follow up on any outstanding matters from our interim work should there be any, and will provide a detailed working papers request to help ensure the audit can commence promptly on the agreed date. We will also maintain an open dialogue with officers to understand any issues emerging from the production of the financial statements.

Appendix 1 – Faster Close Key Messages

Following the discussion held at the 2 February 2018 GAS Committee meeting as part of presenting our audit plan, we have set out below the key messages which we are communicating consistently to all authorities with regard to the earlier timetable for accounts production and audit completion for 2017/18. We would be happy to discuss this again at the 9 March 2018 GAS Committee meeting if you would like to do so.

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 accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include internal quality assurance arrangements, late working papers, and slippage in delivering data for analytics work in format and to the timescales required.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions and information requests.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may include postponing your audit until later in the summer and redeploying the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.

- Work with the Council to implement EY Client Portal, this will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on –demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.

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