

Portsmouth City  
Council  
Audit results report  
Year ended 31 March 2018

19 July 2018



19 July 2018

Dear Governance & Audit & Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Governance & Audit & Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Portsmouth City Council for 2017/18. We will issue our final report following the Governance & Audit & Standards Committee meeting scheduled for 27 July 2018.

We have substantially completed our audit of Portsmouth City Council (the Authority) for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018. We also have no modifications to our conclusion on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Governance & Audit & Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Governance & Audit & Standards Committee meeting on 27 July 2018.

Yours faithfully

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# 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 ([www.PSAA.co.uk](http://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.





# 01 Executive Summary

## Executive Summary

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### Scope update

In our Audit Planning Report presented at the 2 February 2018 Governance & Audit & Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following points to be noted:

- Changes in materiality - in our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £11 m. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £11.65m. This results in updated performance materiality, at 75% of overall materiality, of £8.74m, and an updated threshold for reporting misstatements of £0.582m. We also identified areas where misstatements at a lower level than materiality might influence the reader and developed specific detailed audit tests for them. These areas were: remuneration disclosures including exit packages, related party transactions, and members' allowances.
- We have engaged our internal specialist to review the Authority's updated calculation of its minimum revenue provision, and historic overprovision, arising from the adoption of the annuity method.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

# Executive Summary

## Status of the audit

We have substantially completed our audit of Portsmouth City Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

Our work is ongoing in the following areas:

- Valuation of PPE, Investment Property and Heritage Assets – work is substantially complete; our documentation of the testing is ongoing
- Long Term and Short Term investments – there are a small number of confirmations from counterparties outstanding
- Earmarked Reserves – we are awaiting evidence for part of our sample
- HB expenditure – responses to our subsidy and IT updates questionnaire are outstanding
- Capital grants – we are awaiting evidence for our sample
- MRP – our work to agree 2016/17 unsupported borrowing is ongoing – all other work necessary for 2017/18 is complete
- Disclosures and AGS – our work on disclosures and the Annual Governance Statement is ongoing

The following are also outstanding or are to be completed as part of the conclusion of the audit:

- completion of our audit conclusion procedures
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

The Whole of Government Accounts deadline for 2017/18 is 31 August 2018. We currently expect to complete that work in early August, and to issue the audit certificate following the conclusion of that work.

# Executive Summary

## Audit differences

We identified one audit difference in the draft financial statements which management has chosen not to adjust. We ask that a rationale as to why it is not corrected be approved by the Governance & Audit & Standards Committee and included in the Letter of Representation. The aggregated impact of the unadjusted audit difference is £3.3m. We agree with management's assessment that the impact is not material.

We have also identified audit differences with an aggregated impact of £3.4m which have been adjusted by management, and a small number of presentation and disclosure matters. These adjustments have not altered the overall financial position of the Council or its Balance Sheet Net Assets value.

Details can be found in Section 4 Audit Differences.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Portsmouth City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Governance & Audit & Standards Committee.

## Control observations

We have adopted a fully substantive approach, so we have not tested the operation of controls. We have not identified any significant deficiencies in the design or operation of an internal control in 2017/18 that might result in a material misstatement in your financial statements and which is unknown to you.

In our Audit Results Report in 2016/17, we identified a small number of control observations, and noted management's response to these. Where appropriate, we have followed up to understand the further actions taken in 2017/18 in respect of these matters.

Further details can be found in Section 7.

## Executive Summary

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### Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We did not identify any significant risks in relation to your arrangements in our Audit Planning Report, and none have been identified through the remainder of our audit.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

### Other reporting issues

Our work to review the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority is ongoing. We will provide an update on this at the 27 July 2018 meeting of the Governance & Audit & Standards Committee.

Our work to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission is planned to take place in early August, to meet the deadline of 31 August 2018.

We have no other matters to report.

### Independence

Please refer to Section 9 for our update on Independence. There are no issues which we need to bring to your attention with regard to our independence from Portsmouth City Council for 2017/18.





## 02 Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

### Misstatements due to fraud or error

#### 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 judgements are we focused on?

In addition to undertaking the procedures mandated by ISA240 (shown in the "What did we do?" section below), our work focussed on the following areas of potential management override:

Accounting policies – we reviewed accounting policies for compliance with the CIPFA Code of Practice, for appropriateness of tailoring, and for changes from the prior year. We were also mindful of possible non-compliance with accounting policies when undertaking our detailed testing of balances and transactions.

Accounting estimates – our work on estimates focussed on PPE valuation, IAS19 pension estimates, PFI valuation and Minimum Revenue Provision.

Capitalisation of revenue expenditure – we tested additions to property, plant and equipment, to ensure these met the criteria to be classified as capital expenditure

#### What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rationale for any significant unusual transactions.

#### What are our conclusions?

Our work on a number of areas related to management override is ongoing, as noted in Section 1. We expect to conclude as follows:

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

Further detail is provided on the next page.



## Areas of Audit Focus

### Significant risk



#### Further details on procedures/work performed

Our work on a number of areas related to management override is ongoing, as noted in Section 1. We expect to conclude as follows:

We have undertaken a programme of testing on journals and manual adjustments to the financial statements. We have not identified any inappropriate journals or adjustments through this work.

We have not identified any instances of inappropriate judgements being applied in relation to accounting estimates, or other balances and transactions. We have engaged our internal specialist to review the Authority's updated calculation of its minimum revenue provision, and historic overprovision, arising from the adoption of the annuity method. This work is ongoing, but we do not expect to identify any issues with a material impact on the 2017/18 financial statements.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

We did not identify any inappropriate tailoring of accounting policies, or inappropriate changes in policies from the prior year. Policies were found to be compliant with the CIPFA Code and no instances of non-compliance with the stated policies were identified through our wider audit work.

We have undertaken a programme of testing on additions to property, plant and equipment and have not identified any instances of inappropriate capitalisation of revenue expenditure.



## Areas of Audit Focus

### Other areas of audit focus

#### 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 Authority'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.

#### What did we do?

The procedures we undertook were to:

- Consider the work performed by the Authority'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.

#### What are our findings?

Our work on valuation of land and building is ongoing. For each major class of assets, the status of our work is as follows:

- Work on heritage assets is complete.
- We have agreed the underlying calculations and rental figures for investment property – work to agree yields is currently being finalised.
- We have a small number of queries arising in relation to our sample of beacon properties for HRA valuations which are being followed up.
- Evidence has been provided for our sample of other land and buildings and is currently being worked through. We have reviewed the valuation of the Spinnaker Tower undertaken in 2017/18 with no issues arising.

No issues have been identified from our work to date. We will provide a further update to the meeting of the Governance & Audit & Standards Committee on 27 July 2018.



## Areas of Audit Focus

### Other areas of audit focus

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

#### What did we do?

#### What are our findings?

##### 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 Authority'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 Authority's financial statements.

The procedures we undertook were to:

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

We undertook the programme of work set out in the previous column.

We did not identify any material issues with regard to investment property classification.

We have noted that the Authority has undertaken an assessment of investment property classification in 2017/18 and reclassified a number of properties to PPE where they did not meet the criteria for recognition as investment property. We are satisfied that these reclassifications have been appropriately made.

##### PFI accounting

The Authority 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.

The procedures we undertook were to:

- 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 undertook the programme of work set out in the previous column.

We did not identify any material issues with regard to PFI accounting and no further expert involvement was required.





## Areas of Audit Focus

### Other areas of audit focus

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

#### What did we do?

#### What are our findings?

##### Pension Asset/Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority 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.

The procedures we undertook were to:

- 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 Authority's financial statements in relation to IAS19.

We undertook the programme of work set out in the previous column.

We did not identify any material issues with regard to the valuation of pension assets and liabilities.

One immaterial judgmental difference was identified. This has been reported in Section 4.

##### 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 Authority 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.

The procedures we undertook were to:

- Ask the Authority 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 Authority'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.

We undertook the programme of work set out in the previous column.

We did not identify any material issues with regard to the Authority's group accounts assessment.

The Council's assessment will need to be refreshed again in 2018/19 if the new energy company commences trading in the year.



# Areas of Audit Focus



## Other matters (continued)

### Assessment of new Accounting Standards

IFRS 9 Financial Instruments: The 2018/19 Code introduces IFRS 9 on financial instruments. Your view is that the impact on the Authority's financial statements will be immaterial. The Authority will need to keep this standard under continued focus during 2018/19 because:

- The standard may impact balances with the Authority's subsidiaries
- Statutory overrides may be introduced by Central Government

IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom determines how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. In your view IFRS 15 will not have a material impact on this Authority's single entity financial statements as the vast majority of the Authority's income streams are taxation or grant based.



## 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PORTSMOUTH CITY COUNCIL

##### Opinion

We have audited the financial statements of Portsmouth City Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement; Comprehensive Income and Expenditure Statement; Balance Sheet; Cash Flow Statement; the Expenditure and Funding Analysis on page 39 and notes 1 to 43; the Collection Fund and the related notes 1 to 3; and the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Portsmouth City Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & Information Technology (Section 151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance & Information Technology (Section 151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

## Our opinion on the financial statements

### Other information

The other information comprises the information included in the Statement of Accounts 2017/18 other than the financial statements and our auditor's report thereon. The Director of Finance & Information Technology (Section 151 Officer) is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

#### Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Portsmouth City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.





# Audit Report

## Our opinion on the financial statements

### Responsibility of the Director of Finance & Information Technology (Section 151 Officer)

As explained more fully in the Statement of the Director of Finance & Information Technology (Section 151 Officer)'s Responsibilities set out on page 35, the Director of Finance & Information Technology (Section 151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance & Information Technology (Section 151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Portsmouth City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Portsmouth City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Portsmouth City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



# Audit Report

## Our opinion on the financial statements

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

### Use of our report

This report is made solely to the members of Portsmouth City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Portsmouth City Council and the Portsmouth City Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton  
xx July 2018

The maintenance and integrity of the Portsmouth City Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# 04 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

To date, we have not identified any adjusted differences above our performance materiality level of £8.7m.

We identified two classification misstatements below this level, with a total value of £3.4m, relating to Balance Sheet accounts. These had no impact on total net assets.



We agreed with management that an additional disclosure was needed in Note 37 “Other Companies” to confirm the amount given in grants in the year to MMD (£4m).

We also identified a small number of other minor presentation and disclosure errors, which have been corrected by management.

# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Governance & Audit & Standards Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2018 (£000)	 Effect on the current period:	 Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors					
Judgemental differences:					
• Pension liability				3,310	
• Pension reserve					(3,310)
Balance sheet totals:				3,310	(3,310)

To date, we have identified one unadjusted difference above our reporting threshold of £0.582m, as shown above. This relates to the value of pension assets attributable to Portsmouth City Council as part of the actuarial estimate of pension assets and liabilities for IAS19 reporting in the statement of accounts. The value of the unadjusted difference is £3.3m. The difference was identified through comparison of the actuary's estimate of the Authority's share of Hampshire Pension Fund's assets at 31 March 2018, and the Authority's notional share of the total actual Fund assets at 31st March 2018. The Authority's share of assets is estimated by the Actuary of Hampshire Pension Fund on a roll-forward basis from the 2016 triennial valuation, and the entries in the financial statements are based on an estimate to allow the Authority's accounts to be compiled in time to meet statutory deadlines. The difference is not material to the accounts and we have sufficient assurance that the actuary's estimate of pension assets and liabilities as a whole is materially correct. A similar variance has been identified at a number of authorities across the country.





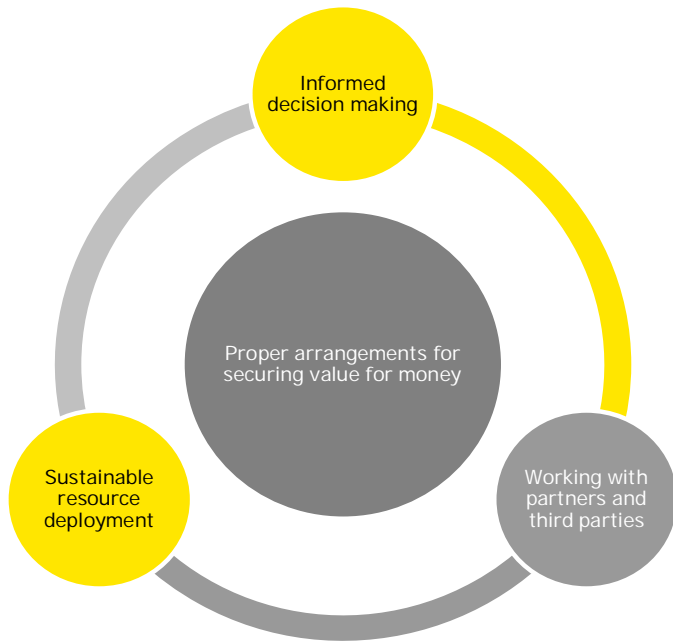
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# Value for Money Risks





# Value for Money



## Background

We are required to consider whether the Authority 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.

## Overall conclusion

We did not identify any significant risks with regard to these criteria at the planning stage of our audit.

We have updated our risk assessment through to the year-end, and have not identified any new significant risks.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.





# 06 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Our work to review the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority is ongoing. We will provide an update on this at the 27 July 2018 meeting of the Governance & Audit & Standards Committee.

### 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, is specified by the National Audit Office.

Our work to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission is planned to take place in early August to meet the deadline of 31 August 2018. We will provide an update to the Governance & Audit & Standards Committee should there be any issues arising from this work.

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues requiring us to act under these responsibilities.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

As part of our consideration of laws and regulations, we have kept the ongoing EU investigation into possible state aid to MMD under review. We are satisfied that the Authority is responding appropriately to this and that no further action is needed as part of our 2017/18 audit. We have also maintained ongoing discussions with management about the potential need to produce harbour accounts for the port. We are satisfied that progress is being made, and that there is no impact on our 2017/18 financial statements audit arising from this matter.

We have no other matters to report.





07

## Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control in 2017/18 that might result in a material misstatement in your financial statements of which you are not aware.

In our Audit Results Report in 2016/17, we noted that we had identified four issues with regard to internal controls, although none of these was sufficiently significant to impact our audit opinion, and all points raised had been responded to by management. We have followed up on these issues as part of our 2017/18 audit where responses given in 2016/17 indicated that further action would need to be taken this year (one instance). The next slide shows the update provided, which we deem reasonable.

We have also corroborated the follow up to one other issue through work reported above - namely the need to keep the Authority's group accounts assessment up to date.

The other two prior year controls issues related to cash held on behalf of the Authority's pooled budget with NHS Portsmouth CCG, and controls around authorisation of journals, which were responded to in full in 2016/17.

# Assessment of Control Environment – follow up on prior year issues

---

Area

Treasury Management Reconciliations

Observation

We noted that the reconciliations are recorded on standard templates and that the date sign offs on the templates are not always updated. Our testing did not identify any unusual reconciling items or errors and we are satisfied that the year end balances are correctly stated. Nevertheless, accurate recording of the dates on reconciliations would help to ensure that the reconciliations are always timely. In this respect, there is scope for improving the documentation of control

Management  
Comment  
2016/17

This issue has arisen from the sign off date being typed into the reconciliation spreadsheets. It is therefore easy to overlook the sign off date and not update it. The reconciliations will be amended so that instead of the date being typed, a box will be provided for the date to be entered by hand.

Management  
Comment  
2017/18

The reconciliations have now amended so that dates have to be entered by hand, and this process is now followed.





# 08 Data Analytics





# Use of Data Analytics in the Audit

## ► Data analytics – testing of General Ledger Journals, and Employee Costs

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the authority's audit included testing journal entries and employee costs, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes securely. These processes are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

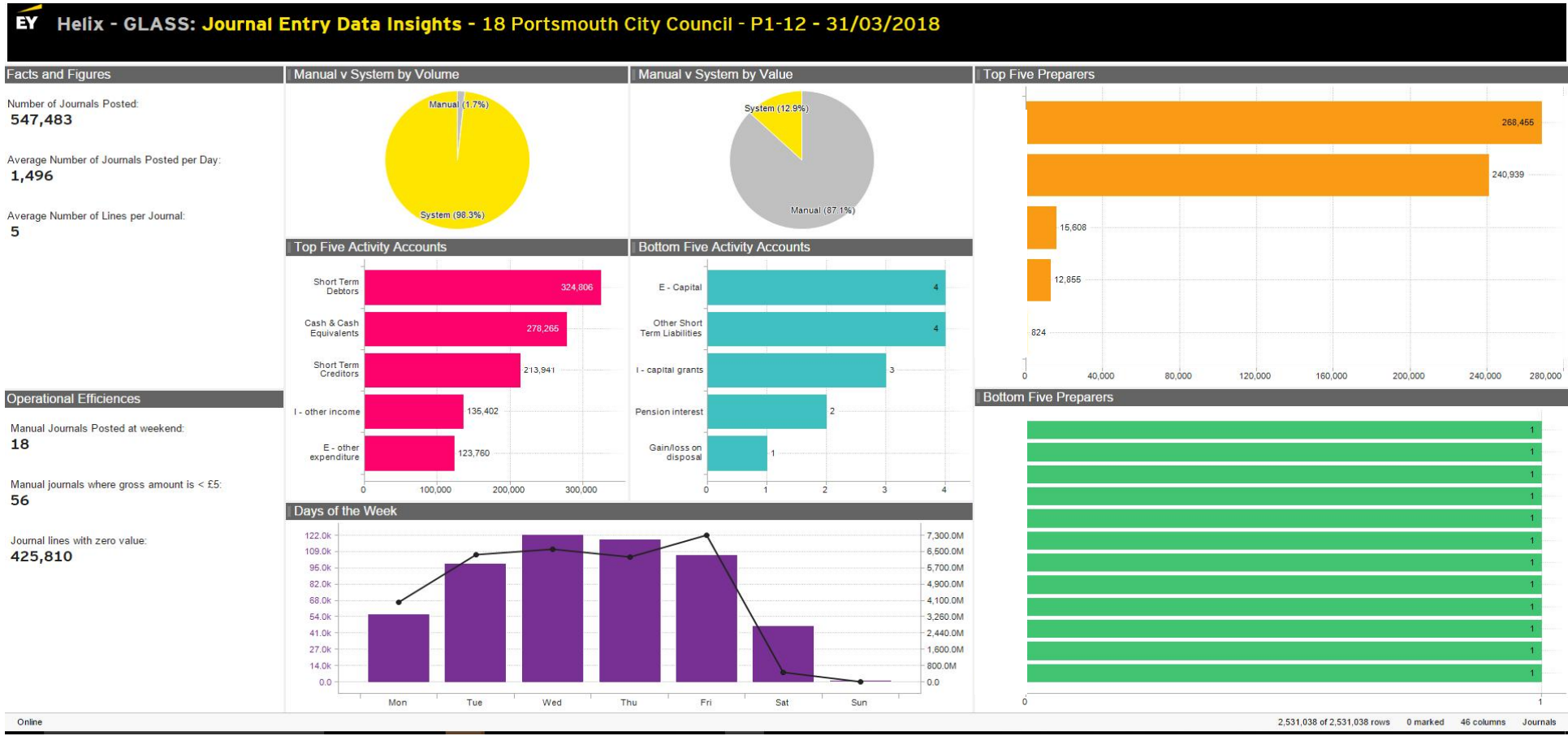


# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





## Journal Entry Testing

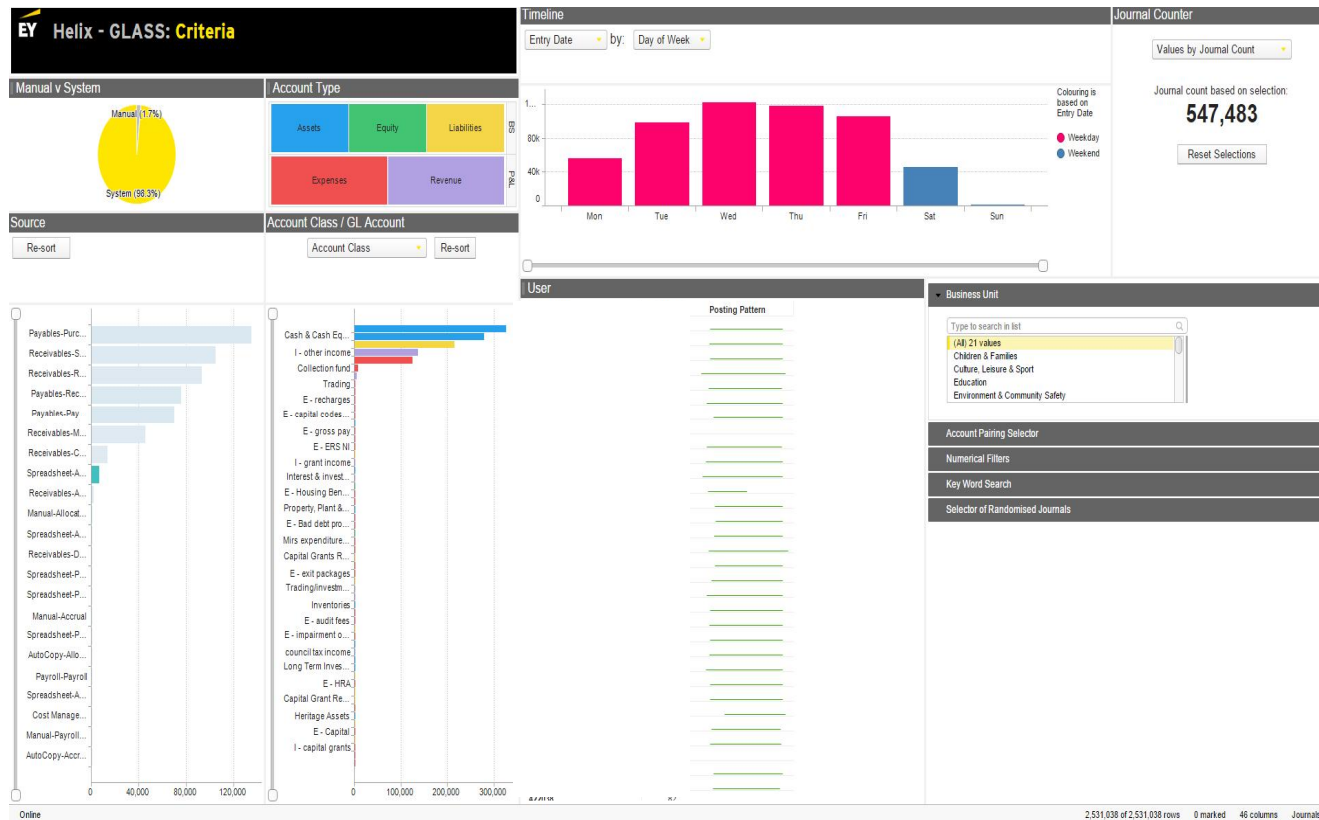
### What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – LG – 31 March 2018

### What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



### What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

### What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and expect to conclude that they were appropriately stated based on work performed to date.





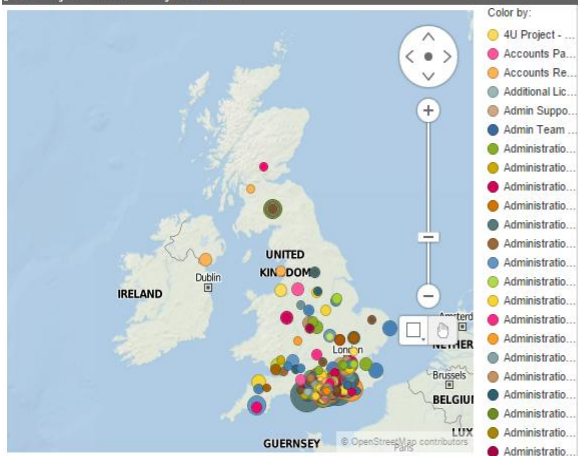
# Data Analytics

## Payroll Analyser Insights

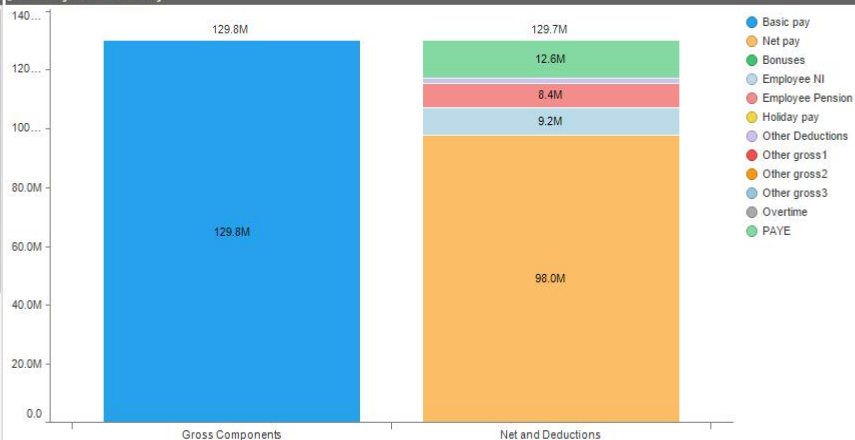
The graphic outlined below summarises the Authority's payroll data for 2017/18. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random samples.

### EY Helix - Payroll Analyser: 1. Payroll Overview

1.0 Pay Distribution by Location



1.1 Payroll Summary



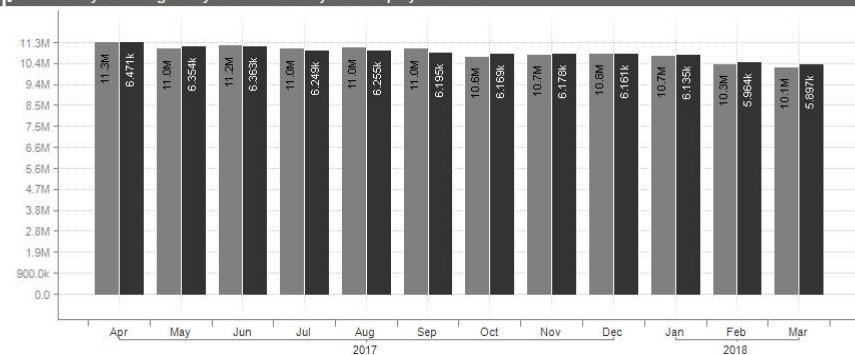
1.2 Transaction Summary

Column	Value	% of Gross
Basic Pay	129.8M	100.0%
Overtime	(Empty)	(Empty)
Holiday pay	(Empty)	(Empty)
Bonuses	(Empty)	(Empty)
Other gross 1	(Empty)	(Empty)
Other gross 2	(Empty)	(Empty)
Other gross 3	(Empty)	(Empty)
Gross Pay	129.8M	100.0%
Net Pay	98.0M	75.4%
PAYE	12.6M	9.7%
Employee NI	9.2M	7.1%
Employer NI	11.2M	8.6%
Employee Pension	8.4M	6.5%
Employer Pension	16.0M	12.3%
Other	1.5M	1.2%

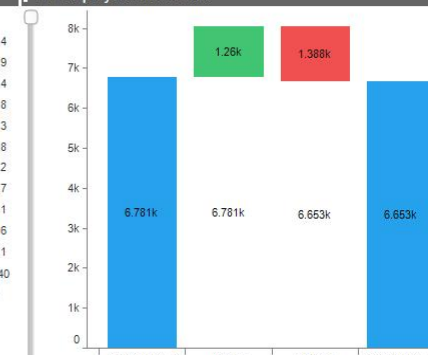
1.3 Data Insights

	Gross	#%
Staff Turnover		17.26%
Employees not in Master File	0.0	6
Employees not in Transactions	0.0	323
Payments after Leave Date	1.4M	895
Payments before Join Date	(Empty)	0
Largest Gross Payment	147.1k	
Average Gross Payment	1.6k	
Smallest Gross Payment	-8.6k	
Employee(s) under minimum wage		0
Highest Paid Employee : Median Employee		23.27

1.4 Monthly Trending Analysis of Gross Pay and Employee Count



1.5 Employee Movement



Online

80,723 of 80,723 rows 0 marked 79 columns Payment Data





09

Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated January 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Governance & Audit & Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Governance & Audit & Standards Committee on 27 July 2018.

We confirm we have not undertaken any non-audit work outside the PSAA Code requirements.

# Independence



## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the below table has been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee - Code work	TBC*	149,438	149,438	149,438
Certification of housing benefit subsidy claim	TBC**	17,797	17,797	17,196

\* We have proposed a scale fee variation of £6,886, in relation to work done in 2017/18 to review in detail the Authority's calculation of its minimum revenue provision and related historic overprovision, following its adoption of the annuity method. This work is outside the scope covered by the scale fee. An equivalent fee has not been charged in previous years. The proposed fee variation remains subject to agreement with management and Public Sector Audit Appointments Ltd.

\*\* Our work on the Authority's 2017/18 housing benefit subsidy claim is ongoing. Our final fee will be confirmed following the completion of our work. The deadline for certification of the claim is 30 November 2018.





# 10 Appendices







## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit. The audit approach to all material balance sheet items is shown.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:




- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

# Appendix A

Balance sheet category 	Audit Approach in current year 	Audit Approach in prior year 	Explanation for change 
Property, Plant and Equipment	Substantively test all relevant assertions	Substantively tested all relevant assertions	No change in audit approach from prior year
Heritage Assets			
Investment Property			
Long Term Investments			
Long Term Debtors			
Short Term Investments			
Short Term Debtors			
Cash & Cash Equivalents			
Short Term Borrowing			
Short Term Creditors			
Capital Grants Receipts in Advance			
Provisions (short and long term)			
Other Long Term Liabilities			
Long Term Borrowing			
Pension Liability			
Usable Reserves			
Unusable reserves			

## Appendix B





# Summary of communications

Date 	Nature 	Summary 
22/01/2018	Meeting	The partner in charge of the engagement, along with the audit manager, met with the Section 151 Officer to discuss current issues at the Authority to inform our continuous audit planning.
02/02/2018	Report	The audit planning report, including confirmation of independence, and a separate progress report setting out work undertaken at the planning stage of our audit, was presented to the Governance & Audit & Standards Committee.
09/03/2018	Report	A progress report, setting out work done at the interim stage of our audit, was presented to the Governance & Audit & Standards Committee.
23/04/2018	Meeting	The partner in charge of the engagement, along with the audit manager, met with the Section 151 Officer to discuss current issues at the Authority to inform our continuous audit planning, and progress on the audit to the interim stage.
08/06/2018	Report	A progress report, confirming key dates for our year-end visit, was presented to the Governance & Audit & Standards Committee.
27/06/2018	Meeting	The partner in charge of the engagement, along with the audit manager, met with the Section 151 Officer to discuss current issues at the Authority to inform our year-end audit visit.
11/07/2018	Meeting	The partner in charge of the engagement, along with the audit manager, met with the Section 151 Officer to discuss current issues at the Authority and progress on the audit at the year-end stage, including any emerging issues.
27/07/2018	Report	The audit results report, including confirmation of independence, will be presented to the Governance & Audit & Standards Committee.





## Appendix C

# Required communications with the Governance & Audit & Standards Committee





There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 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 engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the 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.	Audit planning report, January 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report, January 2018
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report, July 2018

# Appendix C




		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including: <ul style="list-style-type: none"> <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>	No conditions or events were identified, either individually or together to raise any doubt about Portsmouth City Council’s ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit results report, July 2018
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Governance &amp; Audit &amp; Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have enquired of management and those charged with governance. We have no matters to report
Fraud	<ul style="list-style-type: none"> <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 Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Governance &amp; Audit &amp; Standards Committee responsibility.</li> </ul>	Audit results report, July 2018

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <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 Authority</li> </ul>	Audit results report, July 2018
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report, January 2018 and Audit results report, July 2018
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</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 Governance &amp; Audit &amp; Standards Committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations



## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit results report, July 2018
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report, July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report, July 2018
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit results report, July 2018
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report 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, January 2018 and Audit results report, July 2018
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report, expected to be issued September/October 2018

# Management representation letter

## Management Rep Letter

Helen Thompson  
Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Portsmouth City Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Portsmouth City Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.

# Management representation letter

## Management Rep Letter

5. We believe that the effects of the unadjusted audit difference, shown in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial to the financial statements taken as a whole. We have not corrected this difference identified by and brought to our attention from the auditor because it is judgmental, and it is immaterial and therefore will not impact the understanding of a reader of the accounts.
- B. Non-compliance with law and regulations, including fraud
1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
  2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
  3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
    - involving management, or employees who have significant roles in internal controls, or others; or
    - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.
- C. Information Provided and Completeness of Information and Transactions
1. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
  3. We have made available to you all minutes of the meetings of the Council and Cabinet (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date:
    - Full Council: 10 July 2018
    - Cabinet: 06 July 2018

# Management representation letter

## Management Rep Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.
  5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
  6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
- D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
  2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
  3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.
- E. Subsequent Events
1. Other than as described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.
- F. Other information
1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and Annual Governance Statement.
  2. We confirm that the content contained within the other information is consistent with the financial statements.



# Management representation letter

## Management Rep Letter

### G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, the IAS19 pension fund liability, and the business rates appeals provision and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### H. Estimates - Valuation of property, plant and equipment, IAS19 pension liability, PFI valuation, and minimum revenue provision:

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the valuation of property, plant and equipment, IAS19 pension liability, PFI valuation, and minimum revenue provision estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

# Management representation letter

## Management Rep Letter

*Yours faithfully,*

\_\_\_\_\_  
Chris Ward  
(Director of Finance and Information Technology, and Section 151 Officer)

I confirm that this letter has been discussed and agreed at the Governance and Audit and Standards Committee on 27 July 2018

\_\_\_\_\_  
Councillor Will Purvis  
(Chair of the Governance and Audit and Standards Committee)

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