

# Portsmouth City Council

Annual Audit Letter for the year  
ended 31 March 2020

February 2021

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the logo.

Building a better  
working world

# Contents

		Page
Section 1	Executive Summary	3
Section 2	Purpose and Responsibilities	8
Section 3	Financial Statement Audit	11
Section 4	Value for Money	24
Section 5	Other Reporting Issues	28
Section 6	Focused on your future	31
Appendices		
Appendix A	Audit Fees	33

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)).

This 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 April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, 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.



Section 1

# Executive Summary

# Executive Summary

We are required to issue an annual audit letter to Portsmouth City Council (the Council) following completion of our audit procedures for the year ended 31 March 2020.

Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below.

Area of impact	Commentary
Impact on the delivery of the audit	
▶ Changes to reporting timescales	As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, were published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. Due to resourcing constraints in the audit team, we completed our financial statements audit in January 2021.
Impact on our risk assessment	
▶ Valuation of Property Plant and Equipment and Investment Property	<p>The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end. Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively.</p> <p>These issues could have a significant impact on investment properties and property, plant and equipment valued with reference to market factors (existing use value – EUV - assets) and we therefore raised a significant risk in relation to investment property and EUV valuations due to the materiality of these balances.</p>
▶ Disclosures on Going Concern	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Council's actual year end financial position and performance.
▶ Adoption of IFRS 16	The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of local authority financial statements has been deferred until 1 April 2022. The Council was therefore no longer required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements did not need to be financially quantified in 2019/20. We therefore no longer considered this to be an area of audit focus for 2019/20.

# Executive Summary (cont'd)

Area of impact	Commentary
Impact on our risk assessment	
▶ Consultation requirements	Additional EY consultation requirements were implemented concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform.
Impact on the scope of our audit	
▶ Information Produced by the Entity (IPE)	<p>We identified an increased risk around the ability of the audit team to verify the completeness, accuracy, and appropriateness of information produced by the entity, due to the team working remotely and therefore being unable to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:</p> <ul style="list-style-type: none"> <li>• Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and</li> <li>• Agree IPE to scanned documents or other system screenshots.</li> </ul>

The tables below set out the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2020 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
▶ Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you had put in place proper arrangements to secure value for money in your use of resources.

# Executive Summary (cont'd)

Results and conclusions on the significant areas of the audit process continued:

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office on our review of the Council's Whole of Government Accounts (WGA) return.	Our work on the Council's Whole of Government Accounts return was completed on 11 February 2021. There are no matters to report arising from this work.  The audit certificate was issued upon completion of this work.

# Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Reports was issued on 5 January 2021 and presented to the Governance and Audit and Standards Committee on 15 January 2021.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued our audit completion certificate on 11 February 2021 following completion of our work on the Council's Whole of Government Accounts submission.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work and in particular given the challenging priorities they faced as a result of their work in responding to the Covid-19 pandemic. Their collaborative approach enabled us to complete the 2019/20 audit by working remotely.

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

Section 2

# Purpose and Responsibilities



# Purpose

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council .

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Reports to the 15 January 2021 Governance and Audit and Standards Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council .

# Responsibilities

## Responsibilities of the Appointed Auditor

Our 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 20 February 2020 and Audit Plan Update issued on 13 July 2020, and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2019/20 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit



# Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 15 January 2021.

Our detailed findings were reported to the 15 January 2021 Governance and Audit and Standards Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK) 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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We also focused specifically on capitalisation of expenditure as a potential area of manipulation, which is recorded as a separately identified significant risk on the next page of this report.</p> <p>Our work on estimates focussed on Investment Property and EUV assets valuation (identified as a significant risk estimate), PPE valuation, PFI valuation, IAS19 pension and Minimum Revenue Provision estimates (identified as high risk estimates). Our findings on these areas are set out on subsequent pages in this section of our report.</p> <p>Our approach focused on:</p> <ul style="list-style-type: none"><li>• Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li><li>• Assessing accounting estimates for evidence of management bias.</li><li>• Evaluating the business rationale for significant unusual transactions.</li></ul> <p>Further to this, we:</p> <ul style="list-style-type: none"><li>• Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding of the oversight given by those charged with governance of management's processes over fraud.</li><li>• Considered the effectiveness of management's controls designed to address the risk of fraud.</li></ul> <p>Our audit work has provided assurance that:</p> <ul style="list-style-type: none"><li>• We have not identified any evidence of material management override.</li><li>• We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.</li><li>• We have not identified any other transactions which appeared unusual or outside the Council's normal course of business</li></ul>

# Financial Statement Audit (cont'd)

## Significant Risk

### Risk of fraud in revenue and expenditure recognition

Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

The value of Property, Plant & Equipment (PPE) additions in 2019/20 was £211m (£69m excluding Lakeside purchase), and the value of Investment Property (IP) additions was £11m.

The value of revenue expenditure funded from capital under statute (REFCUS) was £29.4m.

## Conclusion

Our approach was as follows:

- We selected a sample of additions, using lowered testing thresholds, to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- We selected a sample of REFCUS expenditure, using lowered testing thresholds, to confirm it was appropriate for the expenditure incurred to be funded from capital sources.
- When performing journals testing, we challenged entries that could be indicative of inappropriate capitalisation, such any significant journals transferring expenditure from non-capital codes to PPE/IP additions or from revenue to capital codes on the general ledger at the end of the year.

Our testing of additions, REFCUS expenditure and journals did not identify any indications of inappropriate capitalisation of revenue expenditure; or inappropriate classification of transactions as REFCUS.

# Financial Statement Audit (cont'd)

Significant Risk	Conclusion
<p>Valuation of Lakeside North Harbour</p> <p>During the 2019/20 financial year, Portsmouth City Council purchased the Lakeside North Harbour office complex located in Portsmouth as part of their regeneration policy for the area.</p> <p>The business campus sits in a 120-acre site, located to the north of Portsmouth City Centre, and comprises 594,000 sq ft of offices, 3,000 parking spaces, a day nursery and 8.7 acres of development land.</p> <p>This is a highly significant and material property, plant and equipment asset. The valuation of the asset is carried out in accordance with the methodologies and bases for estimation set out in relevant professional standards. However, a number of key inputs into the valuation are judgmental and subjective.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet in respect of this asset.</p>	<p>Our approach was as follows. We:</p> <ul style="list-style-type: none"><li>• Commissioned an EY specialist (EY Real Estates) to review the valuation and specifically to:</li><li>• consider the competence, capability and objectivity of the Council's valuers;</li><li>• consider the scope of valuers' work; and</li><li>• challenge the assumptions and methodology used by the valuers by reference to external evidence.</li></ul> <p>We also:</p> <ul style="list-style-type: none"><li>• Tested the specific journals for the valuation to confirm that they have been accurately processed in the financial statements.</li></ul> <p>We concluded as follows:</p> <ul style="list-style-type: none"><li>• Our work and the work of our internal specialists to address this risk did not identify any issues with the valuation of Lakeside North Harbour in the financial statements.</li><li>• Please see the following page for our additional considerations around asset valuations as a result of Covid-19. These are also relevant to Lakeside, which is valued at existing use value.</li></ul>

# Financial Statement Audit (cont'd)

## Significant Risk

### Valuation of Land and Buildings (existing use value) and Investment Property

The value of Investment Property (IP) and Land and Buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews, depreciation and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. 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 Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty in the valuations at year-end. Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we therefore raised a significant risk in relation to investment property valuations. Since our update was issued, we have also judged it necessary to associate this risk with property, plant and equipment valued on the basis of market information (existing use value).

The value of IP in the accounts at 31 March 2020 was £188m. The value of PPE valued at existing use value was £348m (of which Lakeside was £138m).

## Conclusion

Our approach was as follows. We:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuers.
- Tested whether accounting entries have been correctly processed in the financial statements.
- Ensured that appropriate disclosure has been made in the financial statements concerning the material uncertainty.
- Obtained input from EY Real Estates, our internal specialists on asset valuations for Investment Properties and PPE valued at existing use value, including inputs on market sentiment and how it has been reflected in the valuations.

We concluded as follows:

- No issues were identified through our work on existing use value PPE or investment property valuations, which was informed by a review of the valuation methodology and results by our internal specialists.
- No issues were identified through our consideration of the work of the Councils' valuers, or through our review of accounting entries.
- The Council appropriately disclosed a material valuation uncertainty paragraph included by its valuers in their valuation reports. We highlighted this disclosure by including an emphasis of matter paragraph in our audit report. This was not a modification of the audit report.

# Financial Statement Audit (cont'd)

## Other Risk

### Valuation of Land and Buildings (excluding existing use value)

The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and is 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.

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 net book value of PPE in the accounts at 31 March 2020 was £1.44bn. Of this total, £0.75bn is subject to revaluation on bases other than EUV.

## Conclusion

Our approach was as follows. We:

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Tested on a sample basis the accuracy of information used by the valuer in performing their valuations and challenged the valuer's key assumptions.
- Considered the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE.
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
- Confirmed that accounting entries have been correctly processed in the financial statements

We concluded as follows:

- No issues were identified through our testing of PPE (excluding EUV) valuations.
- No issues were identified through our consideration of the work of the Councils' valuers, review of the cycle of valuations and assets not revalued in-year, or through our review of accounting entries.

# Financial Statement Audit (cont'd)

## Other Risk

### Going Concern Disclosure

Covid-19 has created a number of financial pressures throughout local government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced income losses in parking, commercial and leisure services. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in chief financial officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

## Conclusion

Our approach was as follows:

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we sought a documented and detailed consideration to support management's assertion regarding the use of the going concern basis of preparation. Our audit procedures to review this included consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting; and
- Sensitivities and stress testing.

Due to the impact of Covid-19, we also consulted internally with our risk department over the level of disclosure.

We concluded as follows:

The Council has sufficient reserves to cope with the expected impact of Covid-19, and sufficient liquidity. We did not identify indications of material uncertainty, and were satisfied with the Council's disclosure that had been added to the final version of the accounts. There were no matters to be emphasised in our audit report.

# Financial Statement Audit (cont'd)

Other Risk	Conclusion
<p data-bbox="129 411 324 443"><b>PFI Accounting</b></p> <p data-bbox="129 451 1041 643">The Council 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 specialist in 2016/17. We will review the accounting entries and disclosures in relation to PFI in detail in 2019/20, with a focus on any significant changes since the specialist's review.</p> <p data-bbox="129 687 1041 751">The total finance lease liability for PFIs was £62m at 31/03/2020, and the net book value of PFI assets was £140m.</p>	<p data-bbox="1059 411 1473 443">To gain assurance in this area we:</p> <ul data-bbox="1059 451 2107 810" style="list-style-type: none"><li data-bbox="1059 451 1937 515">• Reviewed assurances brought forward from prior years regarding the appropriateness of the PFI financial models.</li><li data-bbox="1059 547 1848 579">• Reviewed the PFI financial models for any significant changes.</li><li data-bbox="1059 611 2107 707">• Ensured the PFI accounting models had been updated for any service or other agreed variations and confirmed consistency of current year models with prior year brought forward assurances.</li><li data-bbox="1059 738 2107 802">• Agreed outputs of the models to the accounts, and reviewed the completeness and accuracy of disclosures.</li></ul> <p data-bbox="1059 834 1366 866">We concluded as follows:</p> <p data-bbox="1059 898 2107 994">We assessed brought forward assurances, reviewed the PFI models for significant changes, and ensured appropriateness of any updates and consistency of current year models with the prior year. We also agreed the outputs of the models to the accounts.</p> <p data-bbox="1059 1010 1960 1042">No issues were identified with PFI accounting through the work performed.</p>

# Financial Statement Audit (cont'd)

Other Risk	Conclusion
<p>Pension Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme, administered by Hampshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>The net pension liability in the accounts at 31 March 2020 was £427m.</p>	<p>To gain assurance in this area we:</p> <ul style="list-style-type: none"><li>• Liaised 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.</li><li>• Assessed the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they 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. This included reviewing the actuary's treatment of specific developments in relation to the McCloud and Goodwin cases, to confirm these had been appropriately considered, and to ensure the resulting treatment within the overall liability estimate was materially correct.</li><li>• Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li></ul> <p>We concluded as follows:</p> <p>As a result of our work, we identified one audit difference which management chose not to adjust. This was in relation to the assumptions used by the actuary of Hampshire Pension Fund to determine their estimate of the Council's defined benefit pension liability. This difference was not material.</p> <p>No other issues were identified from our work to address this risk.</p>

# Financial Statement Audit (cont'd)

Other Risk	Conclusion
<p>Minimum Revenue Provision (MRP)</p> <p>Local authorities are normally required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. This provision is known as MRP. MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement. The calculation of MRP is inherently complex.</p>	<p>Our approach was as follows. We:</p> <ul style="list-style-type: none"><li>• Used the completed outputs of the review undertaken in 2018/19 by our internal specialist of the Council's MRP calculations to inform our assessment of the material accuracy of the Council's MRP estimate and release of its historic overprovision in 2019/20.</li><li>• Considered any changes in the Council's approach to MRP since the review was completed.</li><li>• Considered the impact of changes in the Council's asset base on the MRP charge for the year.</li></ul> <p>We concluded as follows:</p> <p>No changes to the Council's approach to calculating MRP in 2019/20 were identified. We used the completed outputs of the review undertaken by our specialist, and understood the impact of changes in the asset base on the current year MRP calculation.</p> <p>No issues were identified with the minimum revenue provision through the work performed.</p>

# Financial Statement Audit (cont'd)

Other Risk	Conclusion
<p>Restatement of Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes</p> <p>Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP.</p> <p>The Council has changed its internal reporting structure in 2019/20, which will mean the prior period comparators in the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new structure.</p>	<p>Our approach was as follows. We:</p> <ul style="list-style-type: none"><li>• Agreed the restated comparative figures back to the Council's prior year financial statements and supporting working papers.</li><li>• Reviewed the analysis of how these figures are derived from the Council's ledger system.</li></ul> <p>We concluded as follows:</p> <p>We were satisfied that the Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis, and related disclosure notes, were restated appropriately following the change to internal reporting structures.</p>

# Financial Statement Audit (cont'd)

## Other Risk

### Group Accounts Assessment

IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Council 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 judgement requiring regular review.

## Conclusion

Our approach was as follows. We:

- Asked the Council to update its qualitative and quantitative group accounts assessment for all relevant entities and critically evaluated this as early in the audit cycle as possible.
- Undertook our own assessment and compared this with the Council's review, to identify any areas where additional work may have been required to form a conclusion on whether group accounts are required under the accounting standards.

We concluded as follows:

We reviewed the Council's updated group accounts assessment, and undertook our own review to assess whether the Council has any arrangements which would require the production of group accounts.

We were satisfied that group accounts were not required for 2019/20.

# Financial Statement Audit (cont'd)

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality for the Council to be £11.08m (2019: £10.64m), which is based on 1.8% of gross revenue expenditure reported in the accounts.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Governance and Audit and Standards Committee that we would report to the Committee all audit differences in excess of £0.554m (2019: £0.528m)</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: These were tested in detail as part of our audit.
- ▶ Related party transactions: These were tested in detail as part of our audit.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

# Value for Money



# Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

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.

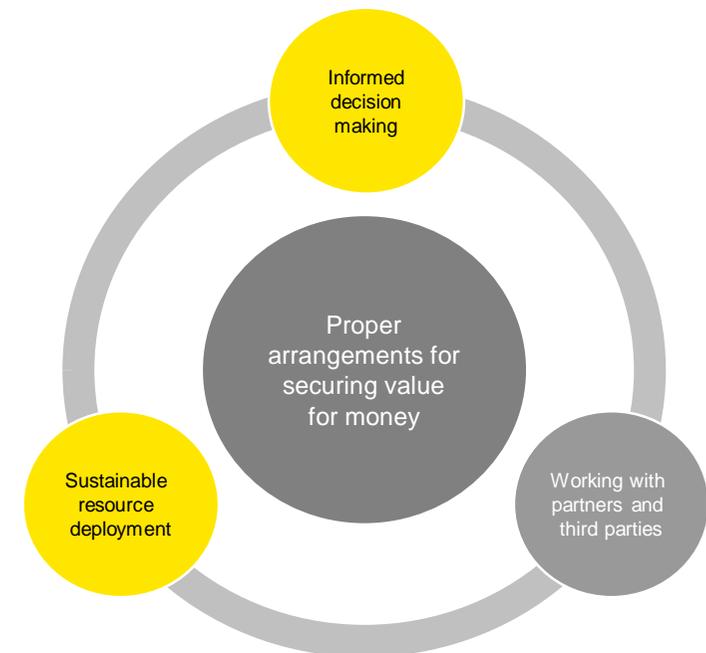
On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider NHS bodies' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 Value for Money arrangements conclusion.

We identified one significant risk around these arrangements. The tables below present our findings in response to the risk in our audit planning report.

No further risks were identified during the course of our audit. This includes thorough consideration of the impact of Covid-19 as noted above.

We had no matters to report about the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore issued an unqualified value for money conclusion on 15 January 2021.



# Value for Money (cont'd)

## Significant Risk

During the 2019/20 financial year, Portsmouth City Council purchased the Lakeside North Harbour office complex located in Portsmouth as part of their regeneration policy for the area.

The business campus sits in a 120-acre site, located to the north of Portsmouth City Centre, and comprises 594,000 sq ft of offices, 3,000 parking spaces, a day nursery and 8.7 acres of development land.

The Lakeside site was purchased for £138m in 2019/20. The purchase was funded through external borrowing, requiring an extension to the Council's maximum borrowing levels in its Treasury Management policies to facilitate the acquisition. The borrowing will lead to increased Minimum Revenue Provision charges and interest payments in future years.

The financial outcomes relating to the asset are contingent in part on occupancy levels of the on-site premises.

## What did we do?

We:

- Reviewed the robustness of the financial appraisals supporting the purchase of Lakeside, including consideration of the expected financial outcomes from the site and the related impact on the Council's finances.
- Reviewed the process undertaken to evaluate and approve the purchase, including understanding the involvement of officers, members and external experts at key stages.

We note that our VFM conclusion is required to cover the period 1 April 2019 to 31 March 2020. As such, the period covered was not significantly impacted by Covid-19. We assessed the Council's arrangements in the period during the year on which the pandemic impacted (late March), and no new risks or need to modify our approach in respect of the risk from our audit planning report were identified.

# Value for Money (cont'd)

## Conclusion

In our judgment, the arrangements underpinning the decision making process which supported the purchase of Lakeside North Harbour were appropriate. The process included the expected elements with regard to financial appraisal, scenario planning and due diligence. There was appropriate involvement of external experts, members and officers throughout the process. Our responsibilities with regard to the identified risk are limited to assessing the appropriateness of arrangements to enable informed decision making with respect to the purchase, which was completed in August 2019, and we have not identified any issues in this regard. We therefore have no matters to report about the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources in 2019/20.

Given the significance of Lakeside in the context of the overall value of the Council's land and buildings, we will keep under review in 2020/21 the development of arrangements put in place by the Council to manage the asset going forward.

A photograph of a business meeting in progress. Several people are gathered around a large wooden conference table, looking at documents. A woman with blonde hair is leaning forward, resting her chin on her hand, appearing thoughtful. A man in a blue shirt and red tie is standing in the background. The scene is brightly lit, suggesting a modern office environment.

Section 5

# Other Reporting Issues

# Other Reporting Issues

## Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

Our work on the Council's WGA submission was completed on 11 February 2021. The reporting date was as a result of needing to perform the WGA review after completion of the statutory financial statements audit, and as a result of technical issues with HM Treasury's OSCAR system. These issues impacted a number of authorities and were not specific to Portsmouth City Council. They were outside of the control of officers and the EY audit team. The audit certificate was issued upon completion of this work.

## Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

## Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

## Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

## Objections Received

We did not receive any objections to the 2019/20 financial statements from members of the public. We did receive 3 items of correspondence from members of the public during the course of our audit. These were not objections to the financial statements and 2 were treated as information received. There are no additional matters to report as a result of this correspondence.

## Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

# Other Reporting Issues (cont'd)

## Independence

We communicated our assessment of independence in our Audit Results Reports to the Governance and Audit and Standards Committee on 15 January 2021. 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 regulatory and professional requirements.

## Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Governance and Audit and Standards Committee.

Section 6

# Focused on your future



# Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year, following a recent further deferral announced in December 2020.	Whilst the adoption of IFRS 16 has been deferred for a further year, we encourage the Council to use that time to undertake a detailed exercise to identify all of its leases during 2021/22 and capture the relevant information for them. The Council must ensure that all lease arrangements are fully documented.



Appendix A  
Audit Fees

# Audit Fees

Our fee for 2019/20 is set out in the table below.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Scale Fee 2019/20 £	Final Fee 2018/19 £
Scale Fee	115,067	115,067	115,067	115,067
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see page 36)	80,727			N/A
Revised Proposed Scale Fee	195,794			115,067
Covid 19 - Going Concern and consultation (2)	7,092			N/A
Covid 19 - increased property valuation risk (2)	9,716			N/A
Lakeside valuation significant risk (2)	4,916	5,000		N/A
Value for Money significant risk (2)	4,784	5,000		N/A
Other (2) :				N/A
• CIES Restatement	1,731	1,750		
• Pensions - IAS19 data	801			
• Correspondence from the public	980			
Total Scale Fee Variation	30,020	11,750		382 (1)
Total Audit Fee	225,814	126,817		115,449

Note 1 - 2018/19 scale fee variation of £382 has been approved by PSAA.

Note 2 - Please see next page for further explanation of these items.

# Audit Fees (cont'd)

An additional scale fee of £30,020 has been applied to the planned fee based on the following items:

- The identification of Going Concern as an additional risk due to Covid-19 resulted in additional work including discussions, review/challenge of documents and cash flow forecasts, and consideration of proposed disclosure. This additional time has been recorded at £4,312. An additional cost of £2,780 has also been charged as we were required to consult with our professional practise department over the going concern disclosure in the accounts, and over the material uncertainty disclosed with regard to PPE and investment property valuations (see also next point).
- The identification of the Valuation of Investment Properties and EUV PPE assets as a significant risk, and increased focus on valuations more generally, resulted in additional work, notably larger sample sizes to be tested. This additional time has been recorded at £6,532.
- As part of the significant risk work over Investment property and EUV PPE valuation, we were required to engage with our internal valuations specialists, EY Real Estates, to test a sample of assets. Based on the number of hours charged by EYRE, the additional cost is £3,184.
- Additional work, including the further use of our internal valuation specialists, was required to address the identified significant risk regarding the valuation of Lakeside North Harbour, as set out on page 14. An additional fee of £4,916 has been charged for this work.
- Additional work was required to address the identified significant risk to our value for money conclusion, as set out on pages 26/27. An additional fee of £4,784 has been charged for this work.
- Additional work was required in relation to the CIES/EFA Restatement, as set out on page 21, and in relation to the work performed on the data used in calculating the pension liability in the financial statements. Additional fees of £1,731 and £801 respectively have been charged for this work.
- Additional work performed to consider and respond to three pieces of correspondence from the public received during the course of the 2019/20 audit. This included the necessary related internal consultations and documentation on the audit file. An additional fee of £980 has been charged for this work.

These items are not included within the PSAA scale fee. They have been agreed with the Director of Finance and Resources but remain subject to agreement with PSAA.

# Audit Fees continued

Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Governance and Audit and Standards Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees ([PSAA fee consultation](#)), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond ([Redmond Review](#)) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 9 June 2020. This discussion was delayed due to the Covid-19 pandemic.

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of management's comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2018 EYGM Limited.  
All Rights Reserved.

ED None

EY-000070901-01 (UK) 07/18. CSG London.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](http://ey.com)