

# Portsmouth City Council

Year ending 31 March 2014

Annual Audit Letter

29 October 2014

Ernst & Young LLP



Building a better  
working world

The Members  
Portsmouth City Council,  
Civic Offices,  
Guildhall Walk,  
Portsmouth PO1 2AL

29 October 2014

Dear Members,

## **Annual Audit Letter**

The purpose of this Annual Audit Letter is to communicate to the Members of Portsmouth City Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Portsmouth City Council in the following reports:

2013/14 Audit results report for Portsmouth City Council

Issued 26 September 2014

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Portsmouth City Council for their assistance during the course of our work.

Yours faithfully

**K.L. Handy**  
For and behalf of Ernst & Young LLP  
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## Contents

<b>1. Executive summary .....</b>	<b>1</b>
<b>2. Key findings .....</b>	<b>3</b>
<b>3. Control themes and observations.....</b>	<b>6</b>
<b>4. Audit Fees .....</b>	<b>7</b>

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

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

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 13 March 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ Forming an opinion on the financial statements;
- ▶ Reviewing the Annual Governance Statement;
- ▶ Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ Undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Portsmouth City Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 30 September 2014 we issued an unqualified audit opinion in respect of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Governance and Audit and Standards Committee) communicating significant findings resulting from our audit.	On 26 September 2014 we issued our report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 3 October 2014
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA/SOLACE guidance.	No issues to report.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 3 October 2014 we issued our audit completion certificate.
Issue a report to those charged with governance of the Authority summarising the certification (of grant claims and returns) work that we have undertaken.	We will issue this report in December 2014.

## 2. Key findings

### 2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 30 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was reasonable. The main issues identified as part of our audit were:

#### Fraud risk

**As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.**

We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements and did not identify any instances that suggested management override.

We reviewed accounting estimates for evidence of management bias and did not identify any examples of management bias.

We evaluated the business rationale for significant unusual transactions, where identified, and did not identify any issues.

#### Academy schools

**A number of schools, including Milton Cross, were expected to achieve academy status in 13/14. We reviewed the accounting for transfers, including any related impairments, and whether they were disclosed correctly.**

We concluded the five schools that were transferred on achieving Academy status had been correctly accounted for.

#### Pooled budgets

**This was the first full year of account for the Continuing Healthcare pooled budget, which now represents a material item of account.**

We concluded the Council's accounting for its share of the income, expenditure, assets and liabilities of the pooled budgets were materially correct and correctly presented in the accounts.

#### Non-domestic rates appeals provision

**From April 2013, there were changes to the arrangements for business rates that require the Council to make a provision for appeals against rating list valuations.**

We concluded the Council had conducted a very thorough exercise and that the provision was accounted for correctly under IAS 37, and was properly disclosed

#### Pilots National Pension Fund

**Following a High Court determination the scheme's actuaries were determining the Council's share of the Pilots National Pension Fund's liabilities.**

We concluded that the Council's liability was reasonably calculated and correctly disclosed within the financial statements.

## 2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 30/09/14. We noted the following issues as part of our audit.

### Financial Resilience

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We did not identify any notable concerns about financial governance and control, but concluded the Council could strengthen its financial planning arrangements.

While corporate processes carefully forecast the medium-term financial position and drive the setting of prudent annual budgets, there is scope to strengthen portfolio and service planning. Developing the 2015/16 budget is testing services and the Council is forecasting real challenges over the medium-term. Therefore identifying further efficiencies to mitigate the need for cuts will only become more challenging in 2016/17 and 2017/18. In this environment, it is clearly critical the Council keeps the focus on how it works, and the potential for transformational change and internal efficiencies..

The Council has reflected on the learning from current corporate transformation projects, and is working to evolve these into an expanded change programme. Delivering this will require considerable corporate and service management capacity, and strong leadership, to ensure proper links are made to service planning. Releasing this capacity will be a major challenge against a background of reducing senior management posts, increasing operational temperature, and the delivery of other major change projects such as the Better Care Fund and the Care Act 2014.

We concluded the Council needs to give proper attention to the longer-term issues and challenges it faces and approach these in a planned and strategic manner.

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### Securing economy, efficiency and effectiveness

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#### We identified two specific risks:

- Last year the Council developed a new corporate plan-on-a-page, redeveloped performance and risk management arrangements, and strengthened the corporate expectation that services prepare three year indicative financial plans. We reviewed how corporate arrangements were bedding in by focusing on one service,
  - The aggregation of existing funding streams into the Better Care Fund has transformed and accelerated the integration agenda. The Council and Portsmouth CCG need to agree how to use these funds to achieve better outcomes for patients. We reviewed the two year local plan submitted in February 2014, and assessed progress with the development of the linked five year strategy and plans for the expansion of pooled budgets in April 2015.
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Corporate performance and risk management arrangements have strengthened significantly throughout the year, Continual learning led to the creation of a panel to review service performance reports before they go to the Strategic Directors Board, and to triangulate them against other sources of intelligence. This now means the senior management team has a rounded view of progress against its corporate objectives.

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We selected Adult Social Care to review, as it covers a significant proportion of the Council's total expenditure, and found local performance management arrangements were still developing. They are rolling-out a new business information tool but need to tailor this to meet local needs, and to track progress against the objectives set out in their business plan; as they are still reliant on pulling a rounded data set together from separate systems. A training and engagement programme will be needed to embed this.

The Better Care Fund plan largely enshrined an existing direction of travel around admissions avoidance, strengthening re-ablement and establishing integrated locality teams.

Implementation has been slower than initially expected and the financial and operational implications have not yet been fully worked through. This remains a key area of development for the Council and CCG, working in partnership with local providers. The Health and Well-being Board needs to drive the delivery of this significant change programme; underpinned by the development of a vision for sustainable integrated care services in Portsmouth.

We also reviewed your arrangements for prioritising resources, and improving efficiency and productivity. We considered these were generally adequate but the Council needs to continue looking outside the organisation to increase its learning from best practice elsewhere, by employing peer reviews and using benchmarking to help identify opportunities for further efficiencies.

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## **2.3 Objections received**

We did not receive any objections to the 2013/14 accounts from members of the public.

## **2.4 Use of other powers**

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

## **2.5 Whole of government accounts**

We reported to the National Audit office on 03/10/14 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts. We did not identify any areas of concern.

## **2.6 Annual governance statement**

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA/SOLACE guidance. We completed this work and agreed a number of amendments with the Council.

## **2.7 Certification of grants claims and returns**

We will issue the Annual Certification Report for 2013/14 in December 2014.



### 3. Control themes and observations

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. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

- ▶ The Council should conduct a review of the asset register to ensure only assets over its de minimus level are included, that assets are grouped where appropriate, and review its approach to revaluations to enable efficiencies.
- ▶ We understand the DfT has now indicated Harbour Accounts should be submitted within nine months of the balance sheet date, but that this has not been communicated to the Council yet. This would mean the 2012/13 and 2013/14 accounts will need to be prepared and audited to meet this statutory duty.

## 4. Audit Fees

A breakdown of our fee is shown below.

	Final fee 2013/14 £	Planned fee 2013/14 £	Scale fee 2013/14 £
<b>Total Audit Fee – Code work</b>	<b>198,180</b>	<b>198,180</b>	<b>198,180</b>
Certification of claims and returns <sup>1</sup>		29,065	24,464

Our actual fee is in line with the agreed fee.

We undertook no non-audit work at the Council in 2013/14.

Notes:

<sup>1</sup> Our fee for certification of grants and claims is yet to be finalised for 2013/14. We plan to report this to those charged with governance in January 2015 within our Annual Certification Report for 2013/14. The variance between scale fee and planned fee relates to the two TRA 11 grant claims, for which a scale fee variation of £4,601 was agreed with the Audit Commission

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