

Portsmouth City Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



Building a better
working world



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

Tel: + 44 2380 382 100
Fax: + 44 2380 382 001
ey.com

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

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

26 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 audit results report to the 25 September 2015 Governance, Audit and Standards Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for the Council.

This is the last year that I will audit Portsmouth City Council and my successor for the 2015/16 audit will be Helen Thompson. I would like to take this opportunity to thank officers for their assistance during the course of our work both this year and in the time I have been the auditor of the Council.

Yours sincerely

K L Handy
Director
For and on behalf of Ernst & Young LLP
Enc.

Contents

1. Executive summary	1
2. Key findings	3
3. Control themes and observations.....	7
4. Looking ahead	8

Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer 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 Annual Audit Letter 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 2014/15 audit work was undertaken in accordance with the Audit Plan issued on 18 February 2015 and was 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 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 having 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, and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's AGS;
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of the Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland)	On 28/09/15 we issued an unqualified audit opinion on the Council's financial statements
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources	On 28/09/15 we issued an unqualified value for money conclusion
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts	We reported our findings to the National Audit Office on 28/09/15
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance	No issues to report
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act	No issues to report

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was presented to the Governance, Audit and Standards Committee on 25/09/15

Issued 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.

Issued on 28/09/15

In December 2015 we will also issue a report to those charged with governance of the Council summarising the certification of grant claims and returns work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council 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 Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 28 September 2015.

Our detailed findings were reported to the September 2015 Governance, Audit and Standards Committee.

The main issues identified as part of our audit, the work we did in response, and the conclusions we reached are set out below:

Significant risk: Management Override

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.

In response to this risk, we tested the appropriateness of journal entries and other adjustments made in the preparation of the financial statements, reviewed accounting estimates for evidence of management bias; and evaluated the business rationale for any significant unusual transactions

Our work did not identify any instances of management override.

Other risk: Property, Plant and Equipment

In 2014/15 officers made a number of changes in how they record Property, Plant and Equipment assets, how they value them, and how they are disclosed in the accounts.

In response we reviewed how these changes were controlled, and conducted testing on the valuation and disclosure of assets.

We did not identify any specific errors in his regard but did note that a number of assets are either not currently being depreciated or are held at nil value. While we concluded these could not result in a material error in the accounts, we did recommend officers review these assets to ensure they are valued correctly and that all assets are depreciated in accordance with the Council's accounting policy.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 28/09/15 but noted the following:

Significant risk: Financial Resilience

We identified a risk in our Audit Plan around whether the Council's longer-term financial strategy was sufficient to secure a stable financial position that would enable it to continue operating for the foreseeable future. We upgraded this to a significant risk in the course of 2014/15 as, although the Council has a good track record of managing its finances and delivering savings, the Chancellor's forthcoming spending review is likely to mean the Council will need to deliver more savings than currently planned over the life of this parliament.

In response we monitored action taken to address any forecasted overspending, reviewed the assumptions underpinning the budget, and monitored progress in developing the savings needed over the next three years.

We reported that the Council is taking sensible steps to become more financially independent of central government and commercial in the way that it operates, in response to the financial challenges it faces. However, we expressed a number of concerns about whether:

- current plans were sufficient to identify the scale of savings required in the time available. The Council has identified it needs to deliver £31m of further savings over the next three years, which may well increase after the spending review, and most of the easy opportunities have already been realised. Future savings of this scale will require more radical changes to how and what services are delivered in the future;
- there is sufficient management capacity to deliver such a significant change programme in the wake of previous and planned reductions in staff levels; and
- services were receiving appropriate central support to identify remedial plans, where they are forecasting demand-led overspends.

We concluded that, unless the Council can accelerate the pace of current plans to reduce costs, or introduce additional strategic initiatives, it will need to grow its income to remain financially stable, as drawing on reserves would not be sustainable.

Other risk: Follow up on 2013/14 value for money work

In 2013/14 we identified two risks on which work was on-going at the time of our reporting.. These were the robustness of:

- *Adult Social Care performance management arrangements, and*
- *the planning and delivery of Better Care Fund work.*

In response we reviewed the Council's progress in these areas in 2014/15.

We reported that Adult Social Care is facing an uncertain future; with new legislative responsibilities, increasing demand for services, cost pressures from the introduction of the minimum living wage, a high level of staff vacancies, and significant savings to identify over the next few years.

The service has made good progress during 2014/15 in strengthening its performance management arrangements but the planned work cannot be completed until further progress has been made in integrating health and social care services.

The Better Care Fund forms part of this integration agenda and schemes are generally progressing in line with plans. However we reported that further work was needed on how integrated health and social care locality teams will operate to improve the service user's experience and minimise duplication. There are different decision making processes at present, and expenditure is separately accounted for, so we recommended the Council reconsider how the pooled budget works so funds can be delegated and spent via a single integrated approach.

We also noted a number of key initiatives had slipped:

- Need and demand profiling – this is about understanding the holistic care needs of the Portsmouth population, and how they are expected to change over time, to inform the redesign of existing health and social care services.
- Care homes – this is about working with care homes to improve the quality and range of care provided in situ to reduce unnecessary admissions to hospital.
- Prevention – this is about tackling the primary causes of ill-health and earlier intervention to prevent avoidable deterioration in people's health and loss of independence.

We concluded that the Council needed to work with health partners to address these issues and accelerate critical workstreams.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes.

We reported that there were no obvious errors and omissions in the Council's Data Collection Tool but that they had, in accordance with the guidance they had received, applied a materiality in disclosing counter-party information and so this was not complete.

2.4 Annual Governance Statement (AGS)

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

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

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Governance, Audit and Standards Committee on 25/09/15. In our professional judgement the firm is independent and the objectivity of the engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in December 2015.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements.

4. Looking ahead

We identified a number of matters that we believe are worth bringing to Members' attention, as set out in the table below:

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016.</p> <p>This will be a material change of accounting policy for the Council. It will also require changes to existing asset management systems and valuation procedures.</p> <p>Relevant assets may also be held outside of the highways department e.g. within the Housing Revenue Account, which will also have to be valued on the revised basis.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p>	<p>CIPFA have produced LAAP bulletin 100, which provides a suggested timetable for actions to prepare for this change. This has been supplemented by the issue of the Code of Practice on Transport Infrastructure Guidance Notes (May 2015) and ITC (July 2015).</p> <p>The Council has made good progress in preparing for this but will need to be able to :</p> <ul style="list-style-type: none"> • demonstrate the completeness of base information, in liaison with Highways and other relevant departments. • ensure that valuation information is appropriate to the Council, and that national valuation indicators are not used without consideration of their appropriateness locally. • analyse the impact across the HRA and General Fund
<p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017/18 financial year the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p> <p>This year's closedown was completed by the existing 30 June target and the opinion given by the audit reporting deadline of 30 September.</p> <p>The Council will need to work with its auditors on how it will produce accounts one month earlier and enable the audit to be completed two months earlier..</p>

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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

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

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

[ey.com](https://www.ey.com)