

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

## Qualified Opinion

We have audited the financial statements of Portsmouth City Council ('the Council') for the year ended 31 March 2025. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 41 including material accounting policy information and including the Expenditure and Funding Analysis,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, and the related notes 1 to 12,
- Collection Fund and the related notes 1 to 3.

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 2024/25.

In our opinion, except for the effects of the matters described in the basis for qualified opinion section, the financial statements:

- give a true and fair view of the financial position of Portsmouth City Council as at 31 March 2025 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended).

## Basis for qualified opinion

The Accounts and Audit (Amendment) Regulations 2024 (Statutory Instrument 2024/907) ("the Regulations") which came into force on 30 September 2024 required the accountability statements for the year ended 31 March 2025 to be approved not later than 27 February 2026 ('the backstop date').

As a result of the disclaimers of opinion on the financial statements for the years ended 31 March 2023 and 31 March 2024, we do not have sufficient appropriate audit evidence over:

- the valuation of property, plant and equipment that were last revalued in the financial year 2022/23, amounting to £114.048 million as at 31 March 2025, and the consequential impact of these on the Comprehensive Income and Expenditure Statement;
- the valuation of additions of property, plant and equipment during 2022/23 not subsequently revalued, amounting to £147.956 million and the consequential impact of these on the Comprehensive Income and Expenditure Statement;
- the valuation and completeness of capital grants receipts in advance and revenue grants receipts in advance, amounting to £134.877 million in 2024/25
- the classification of reserves between useable and unusable including the:
  - o General Fund
  - o Earmarked General Fund
  - o Housing Revenue Account Reserve
  - o Housing Revenue Account Capital Reserve
  - o Major Repairs Reserve

- o Capital Receipts Reserve
- o Capital Grants Unapplied
- o Revaluation Reserve
- o Capital Adjustment Account
- o Collection Fund Adjustment Account
- Deferred Capital Receipts.

Our inability to audit the classification is a consequence of the disclaimer of opinion on the reserve balances as at 31 March 2023. We have obtained assurance over the in year movements in reserves for the year ended 31 March 2025 and the comparative year.

In addition, several Community Assets have been included in the Statement of Accounts at a total valuation of £2.869 million for the year ended 31 March 2024. These assets were not valued on the correct basis for that year end and the updated valuation carried out for the year ended 31 March 2025 is £33.302 million.

Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

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. We are independent of the Council 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 Code of Audit Practice 2024, 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 qualified opinion.

The audits of the financial statements for the years ended 31 March 2023 and 31 March 2024 for Portsmouth City Council were not completed for the reasons set out in the disclaimers of opinion on those financial statements dated 29 November 2024 and 26 February 2025 respectively.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period to 31 March 2027 from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Resources with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.

## Other information

The other information comprises the information included in the Statement of Accounts 2024/25, other than the financial statements and our auditor's report thereon. The Director of Finance and Resource is responsible for the other information contained within the Statement of Accounts 2024/25.

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.

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 course of 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 themselves. 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.

As described in the Basis for qualified opinion section of our report, our audit opinion is qualified due to a lack of assurance over Property, Plant and Equipment valuations and additions not subsequently revalued after the 2022/23 financial year, the balance of Grants Receipts in Advance, and the classification of reserves. Information on these elements of the Council's financial statements is included in the Narrative Report and accordingly we have concluded that the other information may be materially misstated for the same reason.

## 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 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- 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 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)

## Report on the Council's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you if we are not satisfied that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2025.

On the basis of our work, having regard to the Code of Audit Practice 2024 and the guidance issued by the Comptroller and Auditor General in November 2024, we have identified the following significant weaknesses in the Council's arrangements for the year ended 31 March 2025.

- o Weaknesses in the quality and safety of council housing and the Council's arrangements to address this

## Our judgement on the nature of the weakness identified

Reviews of the Council's housing stock undertaken by the Council identified significant deficiencies in the quality and safety of the Council's housing stock and a lack of accurate information on housing stock quality, causing the Council to self-refer to the Regulator of Social Housing (RSH).

Following the self-referral, the RSH released a regulatory judgement in relation to Portsmouth Homes. This was published in January 2025 and graded the Council as a social landlord as C3 and concluded that there are serious failings in the landlord delivering the outcomes of the consumer standards and significant improvement is needed. Specifically, the review found that the Council had failed to meet health and safety regulatory requirements in the following areas:

- o Stock condition surveys incomplete for all housing stock, with HHSRS assessment not incorporated to 2024
- o Electrical safety, relating to the recency of information and action recording
- o Outstanding fire remedial actions
- o Repairs clarity and oversight

RSH have noted that the Council has engaged constructively and acted transparently in order to address the serious failings identified and make significant improvements.

## The evidence on which our view is based

The findings of reviews of the Council's housing stock directly undertaken by the Council, self-referral from the Council to the Regulator dated September 2024 and the regulatory judgement and findings of RSH published in January 2025.

## The impact on the Council

The Council cannot show it is currently meeting the Regulator of Social Housing's Safety and Quality Standard. If the Council does not implement actions to deliver the improvements needed, risks to tenants may not be adequately managed and mitigated.

## Action required by the Council

A work programme has been developed by the Council to address the initial findings of its own review. This includes work to improve the information it holds on the condition of its homes; improve systems and processes to enable better monitoring and reporting relating to the safety and quality of homes; review reporting and recording processes for responsive repairs; and to continue to improve its understanding of tenants' needs.

The Council needs to deliver the agreed action plan to address the issues raised by the review to comply with relevant legal and regulatory requirements and ensure tenant safety.

This is evidence of significant weaknesses in arrangements for governance, specifically how the Council:

- monitors and assesses risk and how it gains assurance over the effective operation of internal controls and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements are met.

## Responsibility of the Director of Finance and Resources

As explained more fully in the Statement of the Director of Finance and Resources' Responsibilities set out on page 41, the Director of Finance and Resources 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 2024/25, for being satisfied that they give a true and fair view and for such internal control as the Director of Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Resources is responsible for assessing the Council'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 Council either intends to cease operations, or has no realistic alternative but to do so.

The Council 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.

### *Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Transport Act 2000,
- Education Act 2002 and school Standards and Framework Act 1998 (England) , Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020, and 2022,

- Waste and Emissions Trading Act 2003,
- National Health Service Act 2006,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- Business Rate Supplements Act 2009,
- The Local Audit and Accountability Act 2014 (as amended), and
- The Accounts and Audit Regulations 2015.

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Portsmouth City Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit, those charged with governance, and the monitoring officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure, inappropriate recognition of trading and investment property income and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of inappropriate recognition of trading and investment property income we tested both the measurement and occurrence of the income transactions and ensured that they had been recorded in the correct period.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. We also reviewed the Council's accounting estimates for evidence of management bias and considered whether there were any significant or unusual transactions outside the normal course of business.

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 2024, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor

General in November 2024, as to whether Portsmouth City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether 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 2025.

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 Portsmouth City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Authority has made 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.

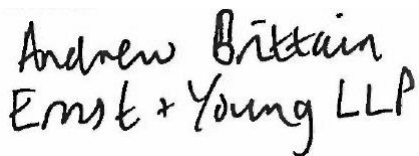
## Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until the NAO, as group auditor, has confirmed that no further assurances will be required from us as component auditors of Portsmouth City Council.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

## 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 (as amended) and for no other purpose, as set out in paragraph 85 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 Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



Andrew Brittain  
Ernst & Young LLP

Andrew Brittain (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Reading  
26, February 2026