

Annual Audit Letter

Fareham Borough Council

Year ending 31 March 2014

30 October 2014



Building a better
working world



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30 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Fareham Borough 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 the Council in the following report:

Fareham Borough Council audit results report
for the year ended 31 March 2014

Issued 11 September 2014 and presented
to the Audit and Governance Committee on
22 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 the Council for their assistance during the course of our work.

Yours faithfully

Kate Handy
For and behalf of Ernst & Young LLP
Enc

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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 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 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued in 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 Fareham Borough Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 24 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 24 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 11 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 24 September 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	No issues to report.

Act.

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 24 September 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 our annual certification report to those charged with governance with respect to the 2013/14 financial year in February 2015.

2. Key findings

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 24 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit were:

Significant risk 1: Provision for NDR Appeals

Issue

- ▶ There have been significant changes in the arrangement for business rates since April 2013. One of the main accounting changes is that individual Council's need to provide for ratings appeals. This includes not only appeals from 1 April 2013 but also claims that relate to earlier periods.

Findings

- ▶ The Council used an external expert to assist in the preparation of the provision for NDR appeals. We evaluated the competence and capability of this expert. We then evaluated their work, considered the methodology adopted and assumptions made and reviewed the source data used.
 - ▶ We benchmarked the value of the Council's appeals provision. The value was slightly higher than the average in the comparator group but within the range of reasonable results.
 - ▶ We identified no indication of management bias in preparing this estimate.
 - ▶ Our overall judgement is that the Council took a reasonable approach to preparing this provision.
-

Significant risk 2: Risk of management override

Issue

- ▶ On all audits we recognise the risk that 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.

Findings

- ▶ Our audit work identified no matters we needed to report.
-

Other audit risk 1: Daedalus

Issue

- ▶ This £8.3m project entails improvements to the runway, provision of new hangar space and an Innovation Centre for small businesses. A land lease was granted to the Council for the plot on which the Innovation Centre is being constructed.
-

Findings

- ▶ So far as it was complete in 2013/14, we reviewed the accounting treatment of this development. Our work identified no matters we needed to report.
-

Other audit risk 2: Purchase of commercial properties

Issue

- ▶ Under its Commercial Property Investment Acquisition Strategy the Council acquired three commercial properties in 2013/14.

Findings

- ▶ We reviewed the accounting treatment of these property acquisitions and identified no issues to report.
-

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 24 September 2014. We noted the following issues as part of our audit.

Financial Standing

Issue

- ▶ The Council continues to experience challenges from reduced government funding.

Findings

- ▶ We reviewed the Council's medium term financial strategy and the 2014/15 budget, and evaluated the reasonableness of key assumptions. We assessed the Council's arrangements for ensuring financial resilience in the medium to long term. We concluded that arrangements to achieve financial resilience and preparations to manage the impact of further pressures from reduced funding and income streams are sound; and
 - ▶ We reviewed the Council's efficiency plan. The Council has established a savings target of £1.4m for the period 2014/15 to 2016/17. It has already implemented over £0.8m. Further identified savings of over £0.5m are in progress and work is ongoing to identify the remainder of the target. Alongside this the Council is undertaking a fundamental review of operations to streamline procedures and provide a better customer service style.
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Developments and changes in approach

Issue

- ▶ In line with its corporate priorities, the Council is a key facilitator in several projects such as:
 - ▶ Welborne - the New Community North of Fareham (NCNF);
 - ▶ The development of the Daedalus site;
 - ▶ The Council is to set up a Joint Venture Company to help meet housing needs; and
 - ▶ The Council is purchasing commercial properties to achieve a higher rate of investment return.

Findings

- ▶ We are satisfied that:
 - ▶ The projects have clear links to corporate priorities;
 - ▶ The projects had appropriate project specific governance frameworks in place that link to the Council's overall risk management framework;
 - ▶ The Council has appropriately considered the financial implications of the projects;
 - ▶ The Council has appropriately considered the legality of the projects; and
 - ▶ The Council has appropriately considered the security, liquidity and yield of its property acquisitions.

There were no issues arising from our work that we needed to report.

2.3 Objections received

We received no objections to the 2013/14 accounts from members of the public.

2.4 Whole of government accounts

We reported to the National Audit Office on 24 September 2014 the results of our work performed in relation to 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.

2.5 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 did not identify any areas of concern.

2.6 Certification of grants claims and returns

We presented our Annual Certification Report for 2012/13 to those charged with governance on 10 March 2014. We certified 3 claims and returns worth £61,507k. We will issue the Annual Certification Report for 2013/14 in February 2015.

2.7 Use of 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.

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.

We had no issues to report for 2013/14.

4. Audit Fees

A breakdown of our fee is shown below.

	Final fee 2013/14 £	Planned fee 2013/14 £	Scale fee 2013/14 £
Total Audit Fee – Code work	63,407	63,407	63,407
Certification of claims and returns ¹	22,199	22,199	22,199

Our actual fee is in line with the agreed fee.

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

Notes:

¹ Our fee for certification of grants and claims is yet to be finalised for 2013/14 as the work is ongoing. We plan to report this to those charged with governance within our Annual Certification Report for 2013/14

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