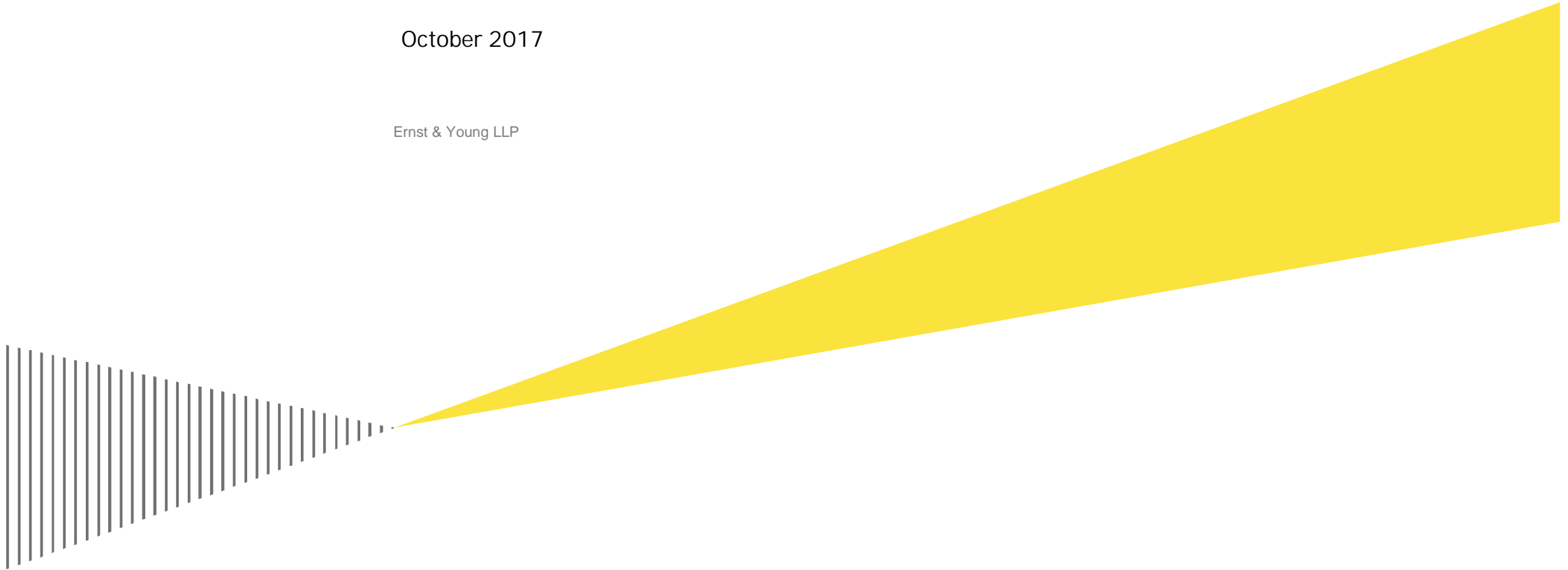


# Fareham Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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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.psaa.co.uk](http://www.psaa.co.uk))

The 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 23 February 2017)” 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. 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.

# Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Fareham Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	
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 2017 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 Financial Report 2016/17.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The 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 (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

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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 Report was issued on 25 September 2017.
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.	Our certificate was issued on 25 September 2017.

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In December 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Helen Thompson

Associate Partner  
For and on behalf of Ernst & Young LLP

Purpose



## 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 2016/17 Audit Results Report to the 25 September 2017 Audit and Governance 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

### Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 13 March 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2016/17 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 (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, 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.

# 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 Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 September 2017.

Our detailed findings were reported to the Audit and Governance Committee on 25 September 2017.

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

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</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, e.g. senior managers entering journals (we would not normally expect this), journals posted at weekends and those not netting to zero, and journals with descriptions such as 'fraud' and 'error';</li><li>▶ testing the Movement in Reserves Statement to assess the appropriateness of amounts transferred from Earmarked Reserves and the Housing Revenue Account to the General Fund;</li><li>▶ reviewing accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals;</li><li>▶ evaluating the business rationale for significant unusual transactions, e.g. individual material items, anomalies in accounting treatment, transactions put through the ledger at unusual times; and</li><li>▶ reviewing the Minimum Revenue Provision policy and the appropriateness of charges made in the financial statements.</li></ul> <p>We found no issues to report.</p>

Significant Risk	Conclusion
<p><b>Valuation of Daedalus</b></p> <p>Our review of the Council's draft financial statements showed that there was a 231% increase in the value of Daedalus within Other Land and Buildings balance in 2016/17 compared to a 1.98% increase in 2015/16. Given that there was also a change in valuer, and the complexity of the calculations and assumptions involved, we concluded that we needed to seek a view from our EY Real Estate Valuation specialists on the appropriateness of the valuation methodology used by the Council.</p>	<p>We concluded that the basis of value and methodology adopted by the specialist was appropriate given the characteristics of the assets being measured; and the specialist possessed the necessary qualifications and experience to perform the valuation analysis.</p> <p>The significant assumptions used in developing the estimate were within a reasonable range given the facts and circumstances present as at the valuation date.</p> <p>The total property value is considered to be reasonable and supported by reference to market evidence. As auditors we have assurance going forward that the valuation commissioned by management was robust and fairly reflects the valuation of Daedalus.</p>

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## 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	We planned our procedures using materiality of £1,185,620. We have reassessed this based on the actual results for the financial year and decreased this amount to £1,182,760. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in excess of £59,000.

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. Strategy applied: we agreed all disclosures in the remuneration report back to source data, and exit packages to the agreed and approved amounts.
- Related party transactions. Strategy applied: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. There were no uncorrected misstatements.

A close-up photograph of a stack of coins, likely British pounds, with various denominations visible. The coins are stacked in a slightly irregular manner, creating a sense of depth. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money' in a dark, sans-serif font.

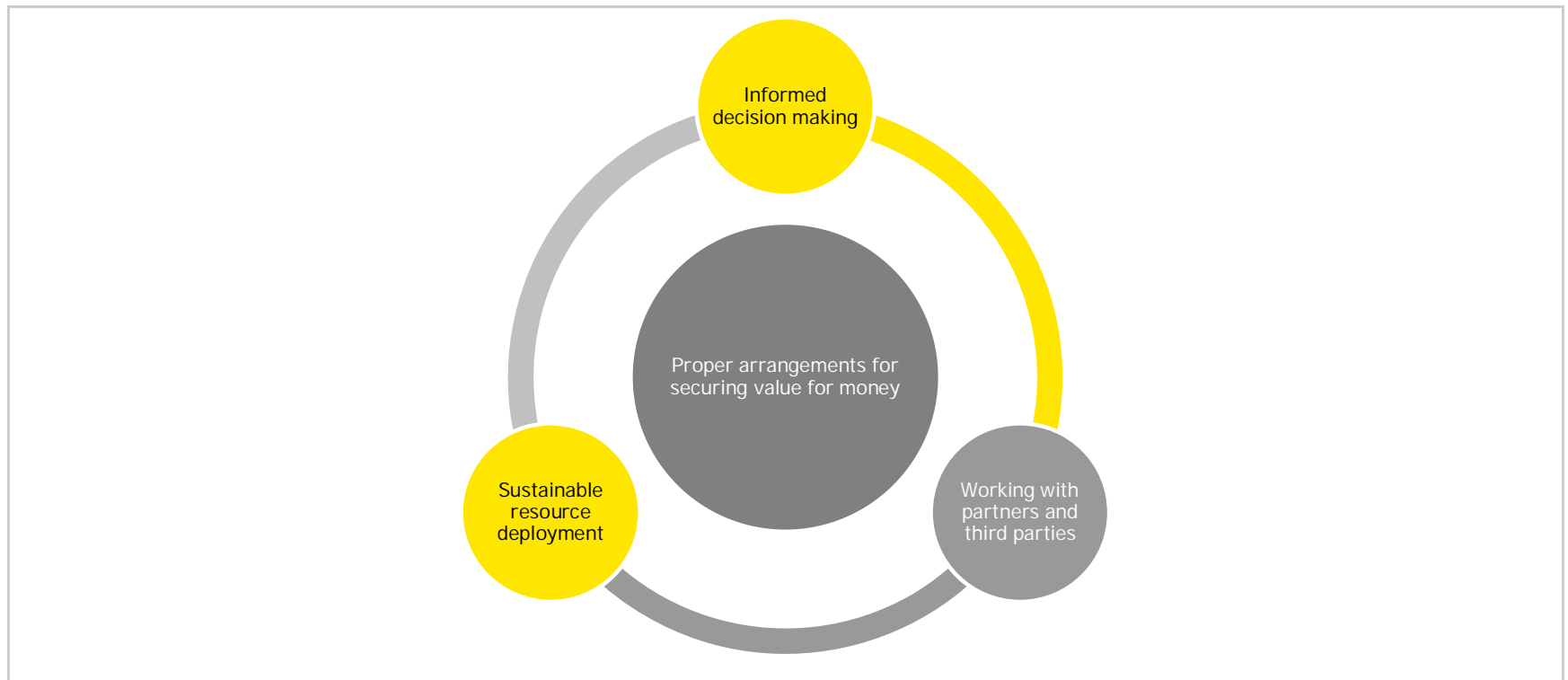
Value for Money

## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on 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.





We identified one significant risk in relation to these arrangements. We performed the procedures outlined in our audit plan and the table below presents the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore issued an unqualified value for money conclusion on 27 September 2017.

Significant Risk	Conclusion
<p>Sustainable Resource Deployment – medium term financial outlook</p> <p>Financial pressures in the public sector continue to mount. As a result of these pressures there is increased focus and wider public interest in the financial resilience of Local Government.</p> <p>The Council also has a number of ongoing developments and schemes which would need to be integrated into its revenue and capital budgets which could have a significant impact on the medium term finance.</p>	<p>Reviewing outturn against the 2016/17 budget. A strong history of managing service delivery to budget, provides comfort over the Council's ability to set realistic and achievable budgets in the future</p> <p>At 31 March 2017, the Council reported a robust outturn financial position. There were no recurring service overspends that would have a material impact on medium term financial planning. The Council has also maintained its reserves at a prudent level.</p> <p>Reviewing the reasonableness of the 2017/18 budget and 5 year Finance Strategy, including integration of Daedalus (and other significant capital projects) into the Council's revenue and capital budgets</p> <p>The Council's Medium Term Financial Strategy (MTFS) is considered annually and was last approved by the Executive on 10 October 2016. The Council is in the process of updating this forecast. We have reviewed the assumptions in the 5 year Finance Strategy and the Council's 2017/18 budget and consider them reasonable at the time of preparation. The Council recognises the uncertainty in future funding levels from central government, and will need to fully incorporate Minimum Revenue Provision when updating its MTFS given the increase in the number of Council schemes funded by borrowing.</p> <p>The Council has integrated Daedalus (and other significant capital projects) into its revenue and capital budgets and, with a number of leases concluded and other income generation schemes potentially underway at Daedalus, the Council is confident in maintaining financial sustainability and meeting the subsidy gap.</p> <p>Evaluating the progress made with, and achievability of, the efficiency plan intended to address budget shortfalls in future years</p> <p>Our work confirmed the Council has a sound record for delivering efficiency plans. Individual schemes underpinning the plan are developed and the Council is confident they are achievable. The Council has a strong history of achieving savings plans in advance of need.</p>

## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

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

The Council is below the specified audit threshold of £350 million. Therefore, we were not required to perform any audit procedures on the consolidation pack.

### 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 2016/17 financial statements from member of the public.

## 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.

## Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Governance Committee on 25 September 2017. 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 approach and have therefore not tested the operation of controls.

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

A close-up photograph of a person's hands holding binoculars to their eyes. The person's face is partially visible in the background, looking through the lenses. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

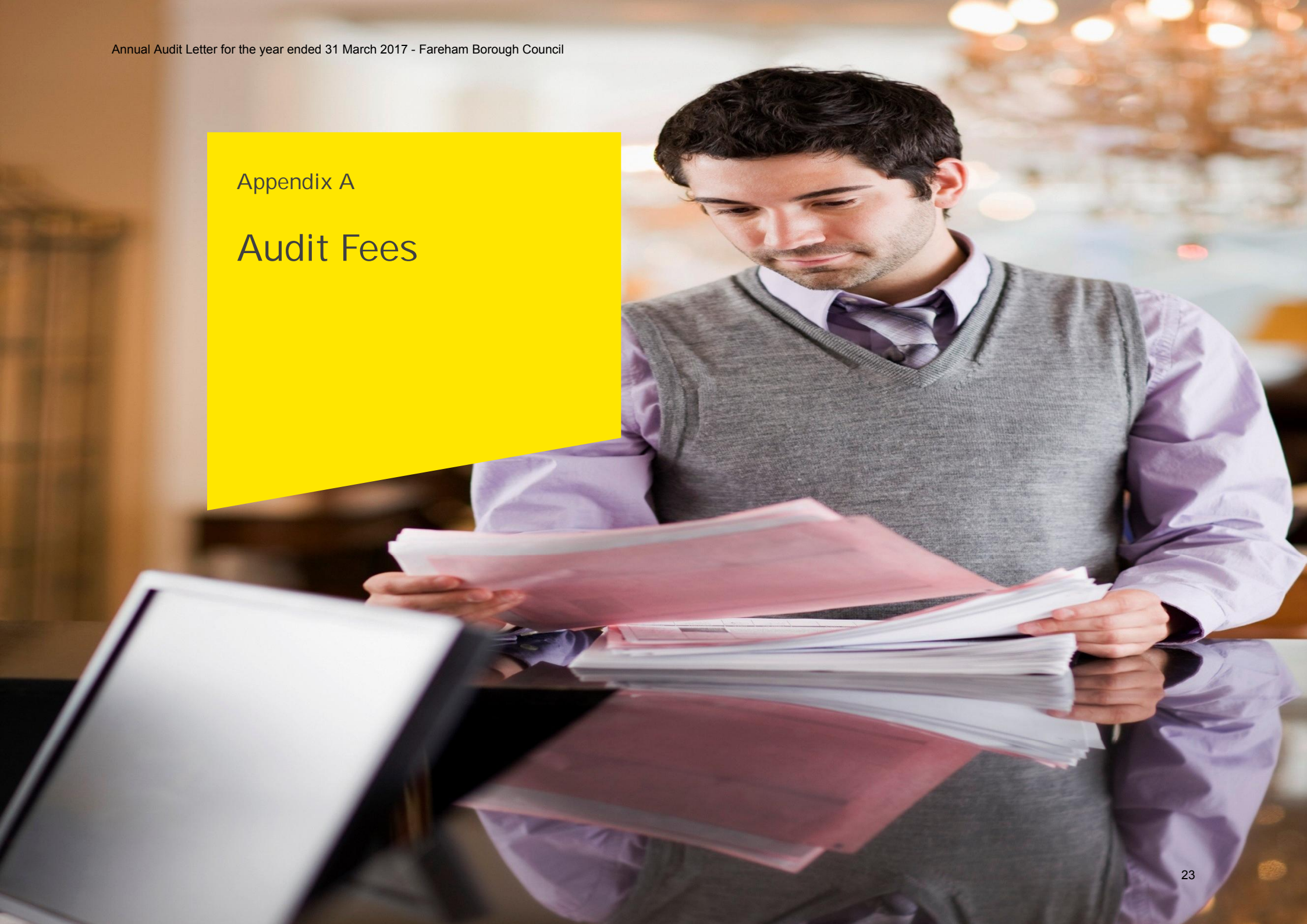
Focused on your  
future

## Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council should consider taking the outlined below:</p> <ul style="list-style-type: none"> <li>• Critically review and amended the closedown process to achieve draft accounts production at an earlier date;</li> <li>• Streamline the Statement of Accounts removing all non-material disclosure notes;</li> <li>• Bring forward the commissioning and production of key externally provided information such as IAS 19 pension information and asset valuations;</li> <li>• Provide training to departmental finance staff regarding the requirements and implications of earlier closedown;</li> <li>• Re-order tasks from year-end to monthly or quarterly timing to reduce year-end pressure; and</li> <li>• Establish and agree working materiality amounts with your auditor.</li> </ul> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> <li>• Issued a thought piece on early closedown;</li> <li>• As part of the strategic alliance with CIPFA, jointly presented accounts closedown workshops across England, Scotland and Wales;</li> <li>• Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017.</li> </ul> <p>Locally we have:</p> <ul style="list-style-type: none"> <li>• Had regular discussions through the year on the Council's proposals to bring forward the closedown timetable;</li> <li>• Scheduled a meeting with key finance staff for early October to discuss and agree with the Council areas for early work which could include testing of major income and expenditure streams at month 9, reviewing calculation and allocation of depreciation charges, discussing and agreeing material estimation procedures as part of the interim work.</li> </ul>

Appendix A

## Audit Fees



## Appendix A Audit Fees

Our fees for 2016/17 are set out in the table below:

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	49,730*	48,230	48,230	48,230
Total Audit Fee – Certification of claims and returns	TBC**	11,310	11,310	15,959

\* The proposed final fee includes £1,500 in respect of additional work required to gain assurance over the significant risk in respect of the valuation of Daedalus. The additional fee was discussed at the 25 September Audit and Governance Committee. This is subject to approval by the PSAA. We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

\*\* Our work on the housing benefit grant claim is currently ongoing and we will report the final certification fees in our Certification of claims and returns annual report.



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ED None

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