

# Fareham Borough Council

Year ending 31 March 2013

Annual Audit Letter

25 October 2013

Ernst & Young LLP



The Members  
Fareham Borough Council  
Civic Offices  
Civic Way  
Fareham  
Hampshire PO16 7AZ

25 October 2013

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.

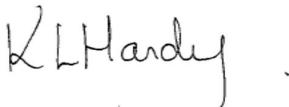
We have already reported the detailed findings from our audit work to those charged with governance of Fareham Borough Council in the following report:

2012/13 Audit results report for Fareham Borough Council – Issued 23 September 2013

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

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

Yours faithfully,



**Kate Handy**  
*For and behalf of Ernst & Young LLP*  
Enc

## Contents

<b>1. Executive summary .....</b>	<b>1</b>
<b>2. Key findings .....</b>	<b>2</b>
<b>3. Control themes and observations.....</b>	<b>4</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 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 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 27 June 2013 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 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 25 September 2013 we issued an unqualified audit opinion for the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 25 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit and Governance Committee) communicating significant findings resulting from our audit.	On 23 September we issued our report for 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 25 September 2013.
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 25 September 2013 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 issued our report on the claims and returns for 2011/12 in February 2013. In February 2014 we will issue our annual certification report to those charged with governance for the 2012/13 financial year.

## 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 25 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good overall, with scope to reduce the number of small errors that we found.

The main issues identified as part of our audit were:

#### Key findings:

---

##### **Accounting for the Authority's interest in Portchester crematorium**

Fareham Borough Council is a constituent council of the Joint Committee for Portchester Crematorium. We think that the way the Council describes the crematorium in its accounts is appropriate, however we note that the Memorandum of Agreement between the 4 constituent councils for the crematorium requires reviewing to ensure that it shows the Council's interest correctly.

##### **Risk of misstatement due to fraud and error**

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

We inquired of management and internal audit about risks of fraud and the controls put in place to address those risks, gained an understanding of the oversight given by those charged with governance of management's processes over fraud and considered the effectiveness of management's controls.

We also undertook mandatory substantive audit procedures and tests and found no issues to report.

##### **Disclosure errors**

Our audit identified a number of disclosure errors. None of these were significant. We highlighted these errors to management and the Statement of Accounts was amended. We have recommended that these are reviewed as part of the Council's process for producing its accounts next year.

---

### 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 2012/13 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 25 September 2013. We reviewed the Authority's medium term financial strategy and the actions being taken to manage the impact of reduced central government funding and pressures on income streams. Although the Authority's current financial position is sound, managing this position in the long term will continue to be challenging.

The Authority is a key facilitator in the delivery of several major developments in priorities such as Welborne – the New Community North of Fareham and the development of the Daedalus site. Recognising that these projects are at an early stage and their impact on the Authority's Medium Term Financial Strategy for 2012/13 is limited, we have no issues to report in relation to this criteria.

### **2.3 Objections received**

We received no objections to the 2012/13 accounts from members of the public.

### **2.4 Whole of government accounts**

We reported to the National Audit office on 25 September 2013 the results of our work performed in relation the accuracy of the property, plant and equipment and pension liability entries in 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 communicated our Annual Certification Report for 2011/12 to those charged with governance in February 2013. We certified 4 claims and returns. We will issue the Annual Certification Report for 2012/13 in February 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 are required to communicate to you any significant deficiencies.

We have not identified any significant deficiencies in internal control.

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](http://ey.com)