

# Fareham Borough 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 23 8038 2000  
Fax: +44 23 8038 2001  
ey.com

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

13 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 annual results report to the 21 September 2015 Audit and Governance 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.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours sincerely

Kate Handy  
Executive Director  
For and on behalf of Ernst & Young LLP  
Enc.

## Contents

<b>1. Executive summary .....</b>	<b>1</b>
<b>2. Key findings .....</b>	<b>3</b>
<b>3. Control themes and observations.....</b>	<b>6</b>
<b>4. Looking ahead .....</b>	<b>7</b>
<b>5. Fees .....</b>	<b>8</b>

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 in April 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 statement of Fareham Borough Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 28 September 2015 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 September 2015 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 September 2015.
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 issued on 21 September 2015 to the Audit and Governance Committee.

---

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 September 2015.

---

In February 2016 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 28 September 2015.

Our detailed findings were reported to the 21 September 2015 Audit and Governance Committee..

The main issues identified as part of our audit were:

#### Significant risk 1: 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

- There were no findings that indicate a risk of misstatement due to fraud or error.
- 

#### Significant risk 2: Daedalus airfield valuation

---

##### Issue

- In March 2015, the Council purchased Daedalus from the Homes and Communities Agency. The site includes: property, infrastructure and specialist assets such as the control tower. The valuation of this asset required careful consideration and specialist advice.

##### Findings

- The Council classified the asset appropriately for valuation purposes;
  - We found the Council's valuer to be competent and capable;
  - The data provided to the valuer was complete and accurate, supporting an effective valuation;
  - We found the valuer's work to be appropriate; and
  - We agreed an amendment to the accounts with the Council. This related to a component with a negative value and how the valuation was applied for financial accounting purposes. This had no impact on the Council's underlying financial position.
- 

### 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 September 2015.

We noted the following issues as part of our audit

---

**Key finding 1: Medium Term Financial Planning**

---

**Issue**

- The local government sector continues to face financial challenge; with reductions in central government funding needing to be offset by efficiency plans.
- The Council's 5 year Finance Strategy identifies spending and funding pressures and seeks to address them with efficiency savings. Our work included reviewing the 5 year Finance Strategy and wider financial position as well as understanding the progress made with the efficiency plan.

**Findings**

- The Council's reported an underspend against its budget in 2014/15. The Council has also maintained its reserves at a prudent level. This is despite the challenges faced by the local government sector, and not having raised Council Tax since 2009/10.
  - We have reviewed the assumptions in the 5 year Finance Strategy and consider them reasonable. However, the Council recognises the uncertainty in future funding levels, in particular from central government, and will need to incorporate the outcome of the Spending Review into future plans.
  - The Council's 5 year Finance Strategy includes an efficiency plan. The Council has a sound record for delivering efficiency plans. Individual schemes underpinning the plan are either implemented or in progress for all required efficiencies. The Council has a history of achieving savings in advance of need.
- 

---

**Key finding 2: Acquisition of Daedalus airfield**

---

**Issue**

- In March 2015, the Council purchased Daedalus from the Homes and Communities Agency (HCA) to facilitate economic development. The Council is now responsible for all operational and financial matters relating to the airfield which it considers viable, although it is projecting short term revenue losses. The Council is planning significant capital expenditure to stimulate economic redevelopment on the site. The revenue budget and sources of capital funding are dependent on assumptions which could have a significant impact on the Council's financial resilience. Our approach focussed on:
  - considering the results of the Council's market analysis study, as key to the success of the site will be interest from companies to locate themselves at Daedalus; and
  - reviewing the evidence to support the assumptions in the Council's long term financial model for the site and considering if it is consistent with the Council's wider budgeting.

**Findings**

- This long term project does expose the Council to risk around demand from businesses to occupy plots on the site. This is a key significant assumption in the Council's long term financial model. The Council's market analysis study indicated that the assumptions made on the likely take up from businesses are reasonable; and
  - The Council presented its 'Daedalus Vision and Strategy' in July 2015 which included an objective to ensure the airfield operates on a break even basis by 2019. Work supporting this objective is underway. The Council has secured funding of around £1.7m against revenue losses over the next three years. This is sufficient to cover the Council's projected losses in the transitional period, and will protect it's financial resilience while the Daedalus Vision and Strategy is implemented.
-



## 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 Council for Whole of Government Accounts purposes. We had no issues to report.

## 2.4 Annual Governance Statement

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 21 September 2015 Audit and Governance Committee. In our professional judgement the firm is independent and the objectivity of the Executive 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 February 2016.

### **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

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 requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p>	<p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p> <p>The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact as it is responsible for assets such as:</p> <ul style="list-style-type: none"> <li>• Daedalus infrastructure;</li> <li>• HRA infrastructure;</li> <li>• Footways;</li> <li>• Unadopted roads on industrial or HRA estates;</li> <li>• Cycleways; and</li> <li>• Street Furniture.</li> </ul>
<p>The DCLG is bringing forward the date of preparation of the financial statements from 2017/18.</p>	<p>This will result in earlier production of the statements and will be a significant challenge that the Council will need to prepare for in advance, reviewing the key tasks and assessing the extent that processes may need changing to reduce the production time.</p>

## 5. Fees

Our fee for 2014/15 is in line with the scale fee set by the Audit Commission and reported in our 21 September 2015 Annual Results Report.

	Final fee 2014/15	Planned fee 2014/15	Final fee 2013/14
<b>Total Audit Fee – Code work</b>	<b>£64,307</b>	<b>£64,307</b>	<b>£64,307</b>
Total Audit Fee – Certification of claims and returns <sup>1</sup>	£15,080	£15,080	£22,199

Our actual fee is in line with the planned fee.

We undertook no non-audit work at the Council in 2014/15.

Notes:

<sup>1</sup> Our fee for the certification of grants and claims is yet to be finalised for 2014/15 as the work is ongoing. We plan to report this to those charged with governance in February 2016 in our report summarising the certification (of grant claims and returns) work we have undertaken.

**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)