

Fareham Borough Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



Building a better
working world

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.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 from 1 April 2015’ 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 Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. 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

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit and Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

Status of the audit	<p>We have substantially completed our audit of the financial statements of Fareham Borough Council for the year ended 2015/16. Subject to satisfactory completion of the outstanding items included in Appendix B we will issue an unqualified audit opinion in the form which appears in Appendix E.</p> <p>The most significant outstanding items are:</p> <ul style="list-style-type: none"> • completion of our final review and sign off; • completion of subsequent events review; and • receipt of the signed management representation letter. <p>We will report any matters from these outstanding items to the September 2016 Audit and Governance Committee.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have performed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We had no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Objections –	<p>We have received no objections to the 2015/16 accounts from members of the public.</p>
Audit differences	<p>Subject to the outstanding audit procedures we have identified no audit differences that management have chosen not to adjust; and</p> <p>Our audit identified a number of audit differences which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details are provided at Appendix A. These adjustments have not had an impact on useable reserves.</p>
Scope and materiality	<p>In our audit plan presented at the 27 June 2016 Audit and Governance Committee meeting, we communicated that our audit procedures would be performed using a materiality of £1.23m. We have reassessed this based on the actual results for the financial year and decreased this amount to £1.19m. The basis of our assessment is 2% of gross operating</p>

expenditure, which has remained consistent with prior years.

The threshold for reporting uncorrected audit differences which impact the financial statements has also decreased from £61k to £59k.

We carried out our work in accordance with our Audit Plan.

Significant audit risks

We identified the following audit risk during the planning phase of our financial statements audit, and reported this to you in our audit plan:

- Risk of management override.

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this issue.

Other reporting issues

We have no other matters we wish to report. We identified three areas of qualitative reporting that we wish to bring to your attention. These are:

- The role of the Head of Finance and Audit;
- The increases in Housing Revenue Account Repairs and Maintenance expenditure; and
- Risk management arrangements.

Further detail are provided in Section 3.

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

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

Kate Handy

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly 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 Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- report on an exception basis on the Annual Governance Statement;
- consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risk during the planning phase of our audit, and reported this to you in our Audit Plan. Here, we set out how we have gained audit assurance over this issue.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> · testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; · reviewing accounting estimates for evidence of management bias; · evaluating the business rationale for significant unusual transactions; · evaluating the rationale for any changes in accounting policy; and · reviewing the Minimum Revenue Policy and appropriateness of charges 	<p>We completed our planned procedures and identified no errors, omissions or inappropriate transactions.</p> <p>Our testing identified no indication of either management bias or the override of controls.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

We have the following matters we wish to report:

- The role of the Head of Internal Audit and Finance - from October 2015, the Head of Audit and Assurance, took on an additional role as the Head of Finance. This introduces a 'self-review' risk. The Council has put in place arrangements, that it considers appropriate, to mitigate this risk. For example, through the use of an external organisation to conduct the internal audit reviews of key financial systems. We have identified no significant weaknesses in the current arrangements. However, given that the Head of Finance and Audit has influence over the scope of internal audit's work and the findings reported to the Audit and Governance Committee, we

would recommend that management keep these arrangements under review to ensure they are comfortable with them.

- Housing Revenue Account (HRA) Repairs and Maintenance (R&M) expenditure - there has been a year-on-year increase in R&M expenditure of £1.1m from £2.9m in 2014/15 to £4.0m in 2015/16. This has been caused by a combination of factors. The Council has identified the most significant as more customer focused ways of working, combined with increased housing standards. The Council anticipates that end-to-end costs will reduce in the longer term. The Council is mindful that this position may impact on its ability to finance capital projects and has put in place arrangements to monitor expenditure for maintenance and repairs. We would recommend that monitoring continues, and further analysis is undertaken where necessary, to ensure that the cost drivers for the service are understood. This will enhance the Council's ability to make informed choices about future HRA revenue and capital expenditure.
- Risk management arrangements - as a result of risk management arrangements being currently under review, a corporate risk register has not been reported to the Audit and Governance Committee since March 2015. This limits the ability of the Committee to exercise the role set out in its terms of reference. Primarily to "oversee and assess the Council's risk management control and corporate governance arrangements and to provide independent advice on the adequacy and effectiveness of these arrangements." It also limits the Committee's ability to scrutinise the risk based audit plans of internal and external audit that it is responsible for approving. We would recommend the Audit and Governance Committee request that management provide it with a report of progress with the review of arrangements, coupled with a summary of the most significant corporate risks facing the Council and the controls in place to mitigate them.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

We have reviewed the Annual Governance Statement and can confirm that it is not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

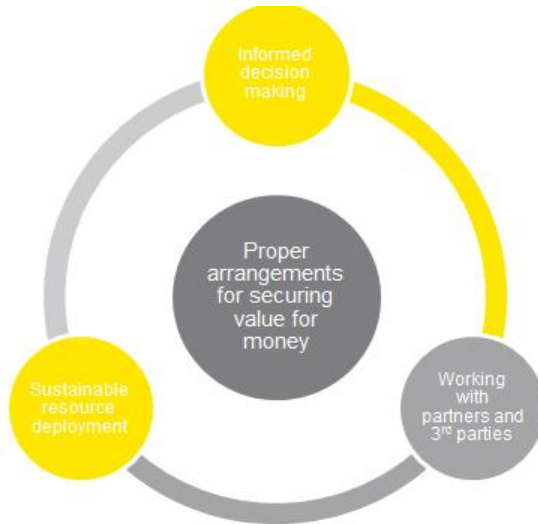
Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F. There are no additional representations included that relate to specific issues identified at Fareham Borough Council.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office. We have completed our work in this area and have no issues to report to you.

4. Value for money



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

Overall conclusion

We identified the following significant risk in relation to these arrangements:

- Sustainable resource deployment - medium term financial outlook

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Significant risks

The table below presents the findings of our work in response to the risk areas in our audit plan.

VFM risk identified within our audit plan

Financial pressures in the public sector continue to mount with the announcement of the Spending Review in November 2015. As a result of these pressures there is increased focus and wider public interest in the financial resilience of Local Government.

Our approach focused on:

- reviewing outturn against the 2015/16 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;

- reviewing the reasonableness of the 2016/17 budget and 5 year Finance Strategy, including integration of Daedalus (and other significant capital projects) into the Council's revenue and capital budgets; and
- understanding the progress made with and achievability of the efficiency plan intended to address budget shortfalls in future years.

Impacts arrangements for

Deploying resources in a sustainable manner.

Key findings

- The Council's reported a robust outturn financial position in 2015/16. There were no recurrent service overspends that would have a material impact on the general fund Medium Term Financial Strategy (MTFS). The Council has also maintained its reserves at a prudent level. This is despite the financial challenges faced by the local government sector and, until 2016/17, not having raised Council Tax since 2009/10.
- The Council's MTFS is considered annually and was last approved by the Executive on 12th October 2015. 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 2016/17 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 incorporate the outcome of the Spending Review into its revised MTFS along with the revenue impact of recent plans to finance capital schemes from borrowing.

The Council has integrated Daedalus (and other significant capital projects) into its revenue and capital budgets. However, current revenue losses at Daedalus are being offset by Homes and Community Agency funding. The terms of this funding only support Daedalus for a further two years. The Council will need to assess whether its strategy for Daedalus will be able to turnaround this position in that timeframe. If the Council forecasts any residual losses these will need to be factored into the revised MTFS.

- 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.
-

Appendix A – Corrected audit differences

The following corrected differences, which have been identified during the course of our audit, warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £'000	Comprehensive income and expenditure statement (Decrease) / Increase £'000
Net Cost of Services	0	(162)
Bad debt provision	162	0
The bad debt provision was understated due to an arithmetical error in its calculation.		
Cumulative effect of adjusted differences	0	0

Disclosures

Disclosure	Description of difference
Note 6 'Adjustments between accounting basis and funding basis under regulations'	£3.4m revenue contributions to capital were reclassified to show them being charged directly to the General Fund / Housing Revenue Account balance. Corresponding adjustments were required to the Movement in Reserves Statement and other notes. There was no net impact on any reserves balances, the amendment was purely presentational
Note 7 'Amounts Reported for Resource Allocation Decisions'	The 'reconciliation to subjective analysis' was amended: <ul style="list-style-type: none"> to include an omitted entry under the 'Service Analysis' column relating to Government grants of £21.3m; and by £1.1m so that the 'Net cost of Services' figure is consistent with the Comprehensive Income and Expenditure Statement. This amendment impacted this disclosure note only.
Note 15 Valuation information	Amendment to disclosure for 'Other land and buildings' of £2.0m to be consistent with other elements of this note.
Note 19 'Operating leases as a lessor'	£1.7m amendment to note due to the miscalculation of one new lease. This amendment impacted this disclosure note only.

<p>Note 27 ‘Unusable Reserves’.</p>	<p>The disclosure was enhanced to include the Collection Fund Adjustment Account because the value of this reserve is material in 2015/16</p>
<p>Note 35 Cash Flow Statement note – ‘Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities’</p>	<p>The corrected entries are:</p> <ul style="list-style-type: none"> · (£2.8m) Capital grants credited to surplus/deficit on the provision of services; and · (£1.7m) Proceeds from the sale of property plant and equipment, investment property and intangible assets <p>These were transposed in the draft accounts.</p>
<p>Various</p>	<p>There were a number of other adjustments to disclosure, none of which are individually significant enough to bring to your attention.</p>

Appendix B – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Final Statement of Accounts.	<ul style="list-style-type: none"> · Completion of our final review and sign off; · Approval of accounts by Audit and Governance Committee; and · Accounts re-certified by Director of Finance and Resources. 	EY, management and Audit and Governance Committee
Management representation letter.	<ul style="list-style-type: none"> · Receipt of signed letter of representation. 	Management and Audit and Governance Committee.
Subsequent events review.	Completion of the subsequent events procedures to the date of signing the audit report.	EY and management.

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan presented to the Audit and Governance Committee in June 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 19 September 2016.

We confirm that we have met the reporting requirements to the Audit and Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan presented to the Audit and Governance Committee in June 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	48,230	48,230	N/A
Certification of claims and returns	15,959	15,959	N/A

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix E – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FAREHAM BOROUGH COUNCIL

Opinion on the Authority's financial statements

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement and the related notes 1 to 35,
- the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and notes 1 to 8,
- and 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 2015/16.

This report is made solely to the members of Fareham Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and Resources and auditor

As explained more fully in the Statement of the Director of Finance and Resources' Responsibilities set out on page 9, 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 'Statements of Accounts for the financial year 2015/16' to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with,

the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the 'Statements of Accounts for the financial year 2015/16' for the financial year for which the financial statements are prepared is consistent with the financial statements.

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;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- 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;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Conclusion on Fareham Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority 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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

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, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Fareham Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Fareham Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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, in all significant respects, Fareham Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Fareham Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Fareham Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Kate Handy (Executive Director)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Southampton

XX/09/2016

Appendix F – Management representation letter

[To be prepared on the entity's letterhead]

[Date]

Kate Handy
Ernst & Young
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Fareham Borough Council (“the Council”) for the year ended 31st March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Fareham Borough Council as of 31st March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, the Executive, the Corporate Governance and Audit & Governance committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following dates:
 - Full Council on 27th July 2016;
 - Executive on 5th September 2016; and
 - the Audit & Governance Committee on 27th June 2016.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements any guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than those described in Note 5 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Yours faithfully,

Director of Finance and Resources

Chairman of the Audit and Governance Committee

Appendix G – Required communications with the audit committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about FarehamBorough Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware o 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Annual Audit Letter / Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report] Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report

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