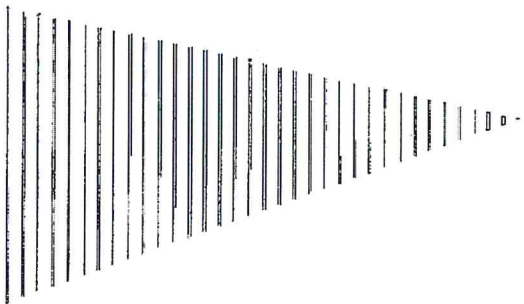


Fareham Borough Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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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 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.

A black and white photograph of a hand holding a pen, writing on a document. The hand is positioned on the right side of the frame. In the background, a laptop keyboard is visible, and a document titled "Executive Summary" is prominently displayed in the center. The scene is set on a reflective surface, creating a clear reflection of the hand and the pen. The overall composition suggests a professional or business context.

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 2016.

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

| Area of Work | Conclusion |
|--|--|
| Opinion on the Council's: | Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended. |
| ▶ Financial statements | |
| ▶ Consistency of other information published with the financial statements | Other information published with the financial statements was consistent with the Annual Accounts. |
| 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). | The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack. |

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 reported to the 19 September 2016 Audit and Governance Committee. |
| 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 21 September 2016. |

Once the work is concluded, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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



Helen Thompson
 Executive Director
 For and on behalf of Ernst & Young LLP

Purpose



WORK

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 2015/16 Audit Results Report to the 19 September 2016 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 2015/16 audit work has been undertaken in accordance with our Audit Plan 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 2015/16 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 did not 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 (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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



**Financial Statement
Audit**

Financial Statement Audit

Key Issues

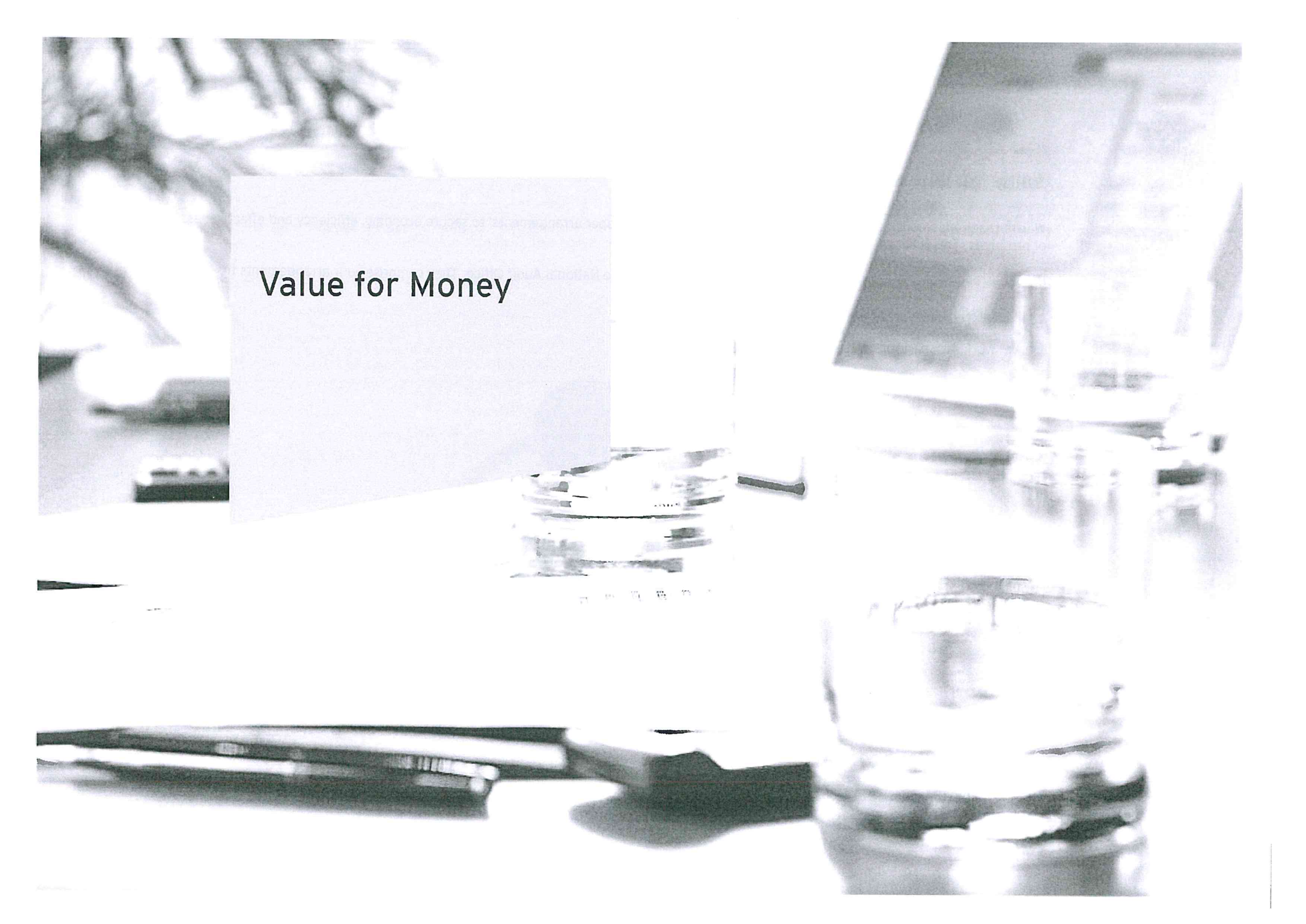
The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

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.

Our detailed findings were reported to the 19 September 2016 Audit and Governance Committee.

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

| Significant Risk | Conclusion |
|--|---|
| Management override of controls 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. | We completed our planned procedures and identified no errors, omissions or inappropriate transactions. Our testing identified no indication of either management bias or the override of controls. |



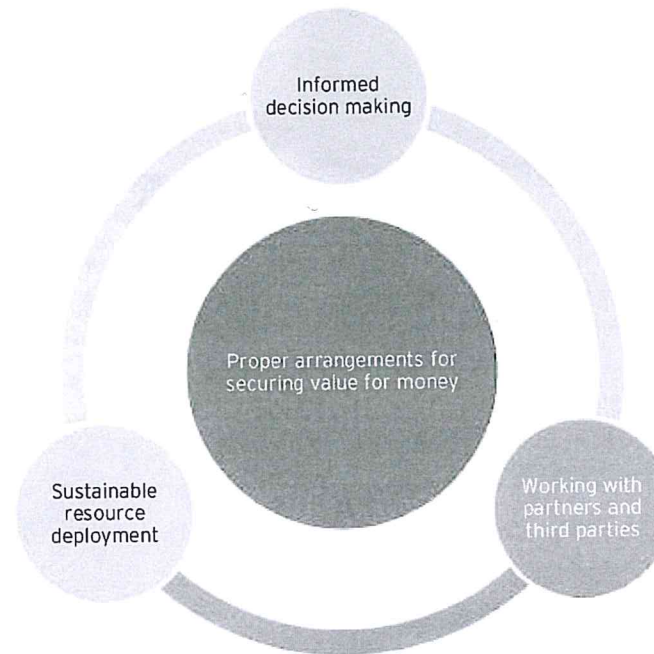
Value for Money

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.



Our audit identified the following key findings in relation to the Council's 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 five 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.

We issued an unqualified value for money conclusion.

A blurred black and white photograph of a meeting. Several people are seated around a table, but their features are out of focus. A semi-transparent white rectangular box is overlaid on the left side of the image, containing the text 'Other Reporting Issues'.

Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore we did not 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 did not identify any issues that require statutory reporting under Section 24 of the Local Audit and Accountability Act 2014.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

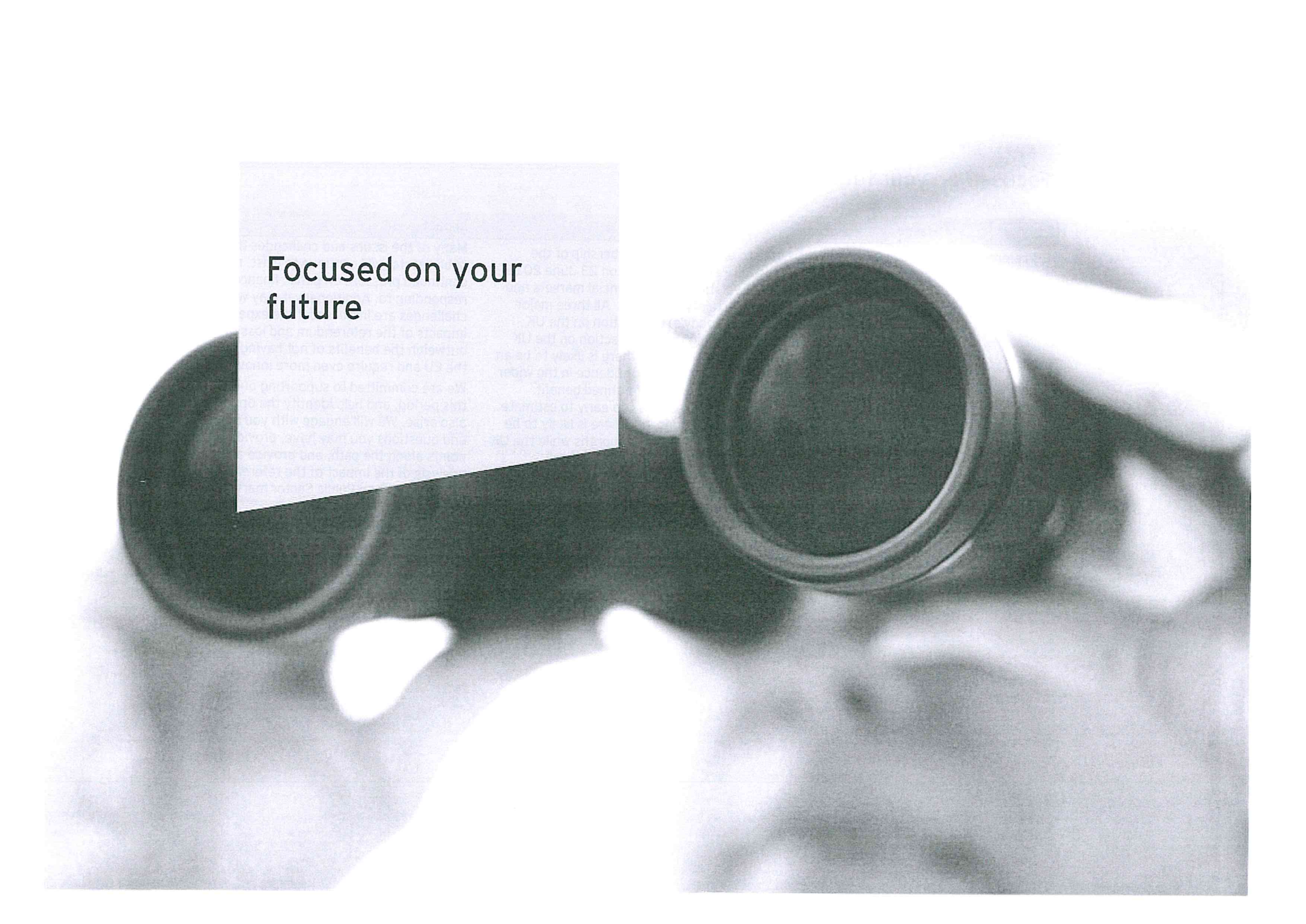
We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Resources Committee. 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 identified no significant deficiencies in internal control.



Focused on your
future

Focused on your future

| Area | Issue | Impact |
|-----------------------------|--|---|
| <p>EU referendum</p> | <p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p> | <p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions. We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p> |

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ED None

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