

Fareham Borough Council

Audit results report

Year ended 31 March 2017

Private and Confidential

13 September 2017

Dear Members

We have substantially completed our audit of Fareham Borough Council's (the Council) financial statements for the year ended 31 March 2017.

Subject to the adequate resolution of the outstanding matters listed in our report, we confirm that we anticipate being in a position to issue an unqualified audit opinion on the financial statements in the form that appears in Section 3, after your Audit and Governance Committee meeting on 25 September and well before the statutory deadline of 30 September 2017.

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of members and senior management, and should not be used for any other purpose nor given to any other party without our prior written consent.

We would like to thank your staff for the assistance provided to us during the engagement.

We look forward to the opportunity of discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Helen Thompson
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (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 February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Members of Fareham Borough Council and management of the Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Council members and senior management for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



Executive summary

Overview of the audit

Scope and materiality

In our Audit Plan, presented at the 13 March 2017 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan. We note the following change to the Audit Plan:

- An additional significant risk was identified in relation to the valuation of Daedalus on receipt of the draft financial statements.

We planned our procedures using materiality of £1,185,620. We have reassessed this based on the actual results for the financial year and have decreased this amount to £1,182,760. The threshold for reporting audit differences has remained unchanged at £59,000. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

Status of the audit

We are still in the process of completing our audit of the financial statements for the year ended 31 March 2017 and are performing the procedures outlined in our audit plan. Subject to satisfactory completion of the outstanding items we expect to issue an unqualified opinion on the Council's financial statements. However, it is possible that further matters requiring amendment may arise. We will provide an update to the Audit and Governance Committee at its meeting on 25 September 2017.

The following matters are outstanding at the time of writing this report:

- Completing our testing and review of the Expenditure and Funding Analysis.
- Concluding on the follow up matters identified in the Auditor's Specialist report on the valuation of Daedalus.
- Receipt of the signed Letter of Representation.
- Review of the final version of the financial statements.
- Completion of subsequent events review.
- Approval of the accounts by the Audit and Governance Committee on 25 September 2017.

We expect to issue the audit certificate at the same time as the audit opinion after the Audit and Governance Committee meeting on 25 September 2017.



Executive summary (continued)

Audit differences – Adjusted

As at 13 September we have identified the following audit differences which management have corrected:

- Note 16: Property, Plant and Equipment. In year additions of £4,295,624 to Holly Hill Leisure Centre were classified as Other Land and Buildings - Additions. The additions should have been classified as Assets Under Construction - Additions and then transferred to Other Land and Buildings - Other movements within note 16.
- Note 16: Property, Plant and Equipment. During 2015/16 and 2016/17 the Council did not charge depreciation on assets which were revalued in year resulting in an understatement of depreciation of £1,084,236.
- Note 16: Property, Plant and Equipment. The Council's valuation of its HRA Dwellings was measured as at 1 April 2016 and this value was included in the draft financial statements. The Council did not have any process in place to ensure that the carrying amount of its Council Dwellings did not differ materially from that which would be determined using the current value at the end of the reporting date. Management subsequently performed an assessment on the carrying value as at 31 March 2017 which resulted in an estimated increase in the carrying value of £6,922,653.
- Note 16: Property, Plant and Equipment. We identified two developments within Council Dwellings that were included at cost and not existing use value for social housing. Consequently Council Dwellings were overstated and impairment expense understated by £4,296,247.
- Note 22: Short Term Debtors. A cash suspense account was cleared to creditors at year-end and not allocated to the individual debtor accounts resulting in the grossing up of debtors and creditors. Consequently, Short Term Debtors and Short Term Creditors were overstated by £2,154,000.
- Note 23: Short Term Creditors. We identified HRA expenditure of £70,467 relating to 2016/17 that was omitted from the financial statements. The expense and related creditor was recorded in 2017/18.
- Note 24: Provisions. The business rates appeal provision did not take into account properties that are due charitable relief. Consequently, provisions are overstated £324,979 being the Council's 40% share. Furthermore, the Council erroneously removed a GP surgery from the 2016/17 provision calculation, this appellant was refunded in 2017/18 but the provision was already released in 2016/17. Consequently, provisions are understated by £125,985, being the Council's 40% share.
- Collection Fund. Appeals refunds against the appeals provision of £2,335,119 was incorrectly included in Income – Non-Domestic Rates – Due. This should have been presented in Increase/(Decrease) in Appeals Provision.



Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial statements. This report sets out our observations and conclusions on these areas. Our consideration of these matters and others identified is summarised in the "Areas of audit focus" section of this report.

We ask you to review these and the other matters in this report to ensure that:

- there are no residual further considerations or matters that could have an impact on these issues;
- you agree with the resolution of the issue;
- there are no further significant issues known to you which need to be considered before the financial report is finalised.

There are no matters that we believe need to be brought to the Audit and Governance Committee's attention, other than those reported by management or disclosed in this report.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result.

For the Whole of Government Accounts, as the Council is below the specified audit threshold of £350 million, we did not perform any audit procedures on the consolidation pack. We have no matters to report.

We have no other matters we wish to report.

Value for money

We have considered your arrangements for taking informed decisions, deploying resources in a sustainable manner, and working with partners and other third parties. In our audit plan we identified one significant risk around these arrangements in terms of "Sustainable resource deployment - Medium term financial outlook".

As discussed, in Section 5, our work did not identify any issues that we needed to report to you in terms of your arrangements to secure economy efficiency and effectiveness in your use of resources.



Executive Summary

Control observations

We have adopted a fully substantive approach and so have not tested the operation of controls.

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.

There are no matters we wish to report.

Independence

Please refer to Appendix B for our update on independence. There are no issues to report.

Audit fees

Our planned fee, reported in the Audit Plan presented to the Audit and Governance Committee in March 2017, was £48,230. Our proposed final fee, of £49,730, will be confirmed following the presentation of this report at the Audit and Governance Committee, subject to the committee's agreement and subsequent agreement with Public Sector Audit Appointments Ltd. We have discussed the additional fee of £1,500 for the work our property experts carried out on the valuation of Daedalus, with the Responsible (S151) Officer when we met on 7 September 2017. Some discomfort was expressed around the fee for the additional work and the Responsible (S151) Officer, although acknowledging the additional work, had reservations in approving any additional fee and this will be taken to the committee for further discussion. Please refer to Section 2 "Areas of audit focus" for further details on the work we carried out and where we have provided further context for the work undergone and Appendix B for our update on audit fees.



02

Areas of Audit Focus



Audit issues and approach: Management override – significant risk

Management override

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business

What is the risk?

Risk of management override

As identified in ISA 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.

What did we do?

Our approach focused on:

- ▶ 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';
- ▶ 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 as well as the adjustments between accounting and funding basis which impact the Useable and Unusable Reserves;
- ▶ reviewing accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals;
- ▶ 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
- ▶ reviewing the Minimum Revenue Provision policy and the appropriateness of charges made in the financial statements.

We found no issues to report.



Areas of Audit Focus

Audit issues and approach: Valuation of Daedalus – significant risk

Valuation of Daedalus

This significant risk was not included in our audit plan and was identified on our review of the Council's draft financial statements

What is our conclusion?

The basis of value and methodology adopted by the specialist is considered appropriate given the characteristics of the assets being measured and the specialist possessed the necessary qualifications and experience to perform the valuation analysis.

The significant assumptions used in developing the estimate were within a reasonable range given the facts and circumstances present as at the valuation date.

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.

What is the risk?

Risk of misstatement of the value of various properties at Daedalus

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 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.

The valuation of Daedalus was carried out by an independent specialist. The valuer adopts the fair value basis to revalue Daedalus. Previously the valuation was done annually in-house by the Council's Estates team. The method adopted divides the overall property into five asset parcels, these being the Centre of Excellence for Engineering, Manufacturing and Advanced Skills Technology (CEMAST), the Innovation Centre, Daedalus East, Daedalus West and the Airfield including the control tower.

What did we do?

Our specialists performed the following procedures:

Understanding the scope of the work performed

- ▶ read the valuation analysis to gain an understanding of the scope of work performed;
- ▶ held conversations with management about the facts and circumstances underlying the valuation analysis; and
- ▶ corresponded with management and their specialist to discuss the valuation process, methods, and assumptions used in the analysis.

Evaluating the specialist

- ▶ researched and commented on the qualifications, experience, and reputation of the specialist (at the firm and individual professional levels); and
- ▶ commented on the relationship of the specialist to the Council.

Commenting on valuation methodology

- ▶ identified the methodology used in the work assessed;
- ▶ commented on whether or not the valuation methodology and techniques used were complete, adequate and consistent with appraisal methodology given the circumstances of the property in its market.

Identifying, verifying and testing significant assumptions

- ▶ identified the significant assumptions used in the work assessed;
- ▶ commented on whether the information used was complete, adequate and relevant;
- ▶ researched the market for data to compare to assumptions used in the work assessed; and
- ▶ assessed whether the assumptions used are supported by observable market data.

Our specialist also held discussions with management, the valuer and the assurance team regarding the valuation analysis.

The council had sought an independent specialist valuation of the developing assets at Daedalus to give them greater assurance that the delivery of the vision was achieving an appropriate increase in the asset value. The above work has validated the approach taken by management. We note that the Council should benefit from this in future years as delivery of the vision for Daedalus continues.

We propose an additional fee of £1,500 for this work as discussed in Appendix B.



03 Audit Report



Audit Report

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

Opinion on the Fareham Borough Council's financial statements

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement; Balance Sheet; Movement in Reserves Statement; Cash Flow Statement; and the related notes 1 to 36, including the Expenditure and Funding Analysis (on page 44); the Housing Revenue Account and related notes 1 to 8; and the Collection Fund and 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 2016/17.

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 Fareham Borough Council and the Fareham Borough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Responsible Financial (S151) Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 3, the Responsible Financial (S151) Officer 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 2016/17, 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 Fareham Borough Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial (S151) Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Council's Statement of Accounts 2016/17 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 2017 and of its expenditure and income for the year then ended; and



Audit Report

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Council's Statement of Accounts 2016/17 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 Authority;
- 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

Council's responsibilities

The Council 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 Council 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 Council 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 Council'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



Audit Report

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 in November 2016, as to whether the 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 the 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 2017.

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, the 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 Comptroller and Audit General in November 2016, 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 2017.

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.

Helen Thompson (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor

Southampton

xx September 2017

The maintenance and integrity of the Fareham Borough Council's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences



Audit Differences

Audit differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures, and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We have included all known amounts greater than £59,000 relating to Fareham Borough Council in our summary of misstatements below.

We highlight the following misstatements in the financial statements and disclosures identified during the audit. These have been corrected by management:

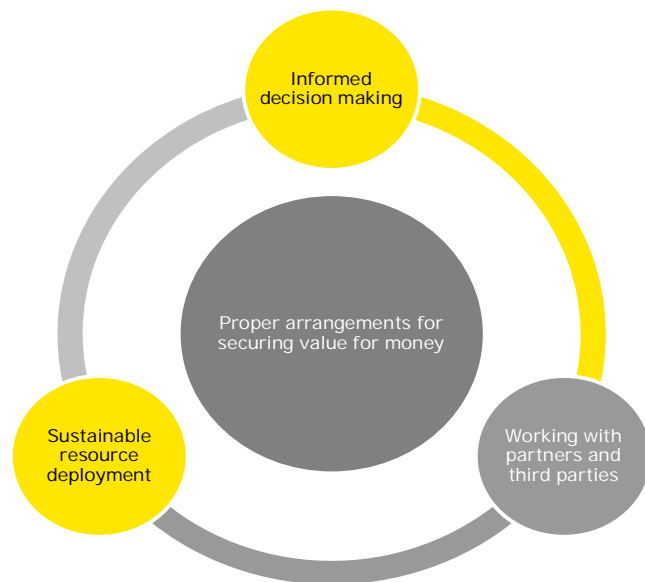
- Property, Plant and Equipment: A misclassification within Property, Plant and Equipment of £4,295,624 between Assets Under Constructions and Other Land and Buildings.
- Property, Plant and Equipment: An understatement of depreciation of £1,084,236 relating to assets revalued in year
- Property, Plant and Equipment: An understatement of £6,922,653 relating to the valuation of Council Dwellings
- Property, Plant and Equipment: An overstatement of £4,296,247 relating to Council Dwellings not impaired
- Short Term Debtors: An overstatement of £2,154,000 relating to Short Term Debtors and Short Term Creditors
- Short Term Creditors: An understatement of expenses and creditors of £70,467 due to a cut-off error
- Provisions: An overstatement of £324,979 and an understatement of £125,985 relating to the business rates appeal provision
- Collection Fund: A misclassification within the Collection Fund of £2,335,119 between Non-Domestic Rates Income and Increase/(Decrease) in Appeals Provision
- A small number of minor amendments to disclosure notes

There were no uncorrected misstatements.



05 Value for Money

Value for Money



Economy, efficiency and effectiveness

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We have considered your arrangements for taking informed decisions, deploying resources in a sustainable manner, and working with partners and other third parties. In our audit plan we identified one significant risk around these arrangements in terms of the "medium term financial outlook".

Our work focussed on the adequacy of the plans and arrangements the Council has put in place, in 2016/17, to secure financial resilience and the financial sustainability of the Council in the medium term.

As discussed, overleaf, our work did not identify any issues that we needed to report to you in terms of your arrangements to secure economy efficiency and effectiveness in your use of resources.



Value for Money

VFM risk - Sustainable Resource Deployment – Medium term financial outlook

We are only required to determine whether there are any risk that we consider significant within the Code of Audit Practice which defines significant as:
“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”
 Our risk assessment supports the planning of enough work for us to deliver a safe conclusion on arrangements to secure value for money, and enables us to determine the nature and extent of any further necessary work. If we do not identify any significant risk, there is no requirement to carry out further work.
 The table below presents the findings of our work in response to the risk area in our Audit Plan.

| Work carried out on the significant VFM risk | What arrangements did this affect? | What are our findings? |
|--|------------------------------------|------------------------|
|--|------------------------------------|------------------------|

Our work focussed on the adequacy of the plans and arrangements the Council has put in place, in 2016/17, to secure financial resilience and the financial sustainability of the Council in the medium term.

Significant risk identification in the 2016/17 Audit Plan:
 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.
 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.

Our findings:

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> ○ 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. | <ul style="list-style-type: none"> ○ Deploying resources in a sustainable manner | <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> |
|---|---|---|



Value for Money

| Work carried out on the significant VFM risk | What arrangements did this affect? | What are our findings? |
|--|---|---|
| <ul style="list-style-type: none">○ 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. | <ul style="list-style-type: none">○ Deploying resources in a sustainable manner | <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 (MRP) 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 satisfying financial sustainability and meeting the subsidy gap.</p> |
| <ul style="list-style-type: none">○ Evaluating the progress made with, and achievability of, the efficiency plan intended to address budget shortfalls in future years. | <ul style="list-style-type: none">○ Deploying resources in a sustainable manner | <p>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> |



06

Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Fareham Borough Council Statement of Accounts 2016/17 with the audited financial statements.

- We found that the financial information in the Fareham Borough Council Statement of Accounts for the Year ended 31 March 2017 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

- We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.



Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Whole of Government Accounts

For the Whole of Government Accounts, as the Council is below the specified audit threshold of £350 million, we did not perform any audit procedures on the consolidation pack. We have no matters to report.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you any findings from the audit or other matters significant to your oversight of the Council's financial reporting process. This includes the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit process;
- Any significant matters arising from the audit that were discussed with management;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations;
- Written representations we have requested;
- Expected modifications to the audit report; and
- Any other matters significant to the overseeing of the financial reporting process.

There were no matters to report.



07

Assessment of Control Environment



Assessment of control environment

Financial controls

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 auditor is to consider whether the Council has adequate arrangements to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

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. As we have adopted a fully substantive approach, we have not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in 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 the Council's financial statements of which they are not aware. However, we would like to bring the following matters to your attention:

- The year-end bank reconciliation identified reconciling items to the value of £0.539 million. However, evidence to support these reconciling items was not retained and alternative procedures had to be performed. We would recommend that as part of management's close down process, evidence supporting reconciling items on the year-end bank reconciliation is retained;
- The assurance letters from management, Head of Audit and those charged with governance were requested to be provided by 30 April. However, these were only received in August;
- The risk management arrangements was still under review during 2016/17 and the revised risk management policy was approved 13 March 2017. During the review period a corporate risk register was not reported to the Audit and Governance Committee as the policy needed review. The policy has now been reviewed and approved with the first full review to be presented to the Audit and Governance Committee on 25 September.

A close-up photograph of a person's hand sorting through several manila-colored folders filled with papers. The folders are arranged in a row on a desk. The hand is reaching towards the second folder from the left. The background is a light-colored, textured wall.

08 Appendices






Appendix A

Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the audit committees of UK clients. We have done this by:

Our Reporting to you

| Required communications |  What is reported? |   When and where |
|-------------------------------------|---|--|
| Terms of engagement | Confirmation by the Council of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, including any limitations. | 13 March 2017 Audit Plan |
| Significant findings from the audit | <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 | 25 September 2017 Audit Results Report |
| Going concern | <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, to raise any doubt about the Council's ability to continue for 12 months from the date of our report |
| Misstatements | <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 | 25 September 2017 Audit Results Report |



Appendix A



Our Reporting to you

| Required communications | What is reported? | When and where |
|-------------------------|--|--|
| Fraud | <ul style="list-style-type: none"> ▶ Asking the Audit and Governance Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Unless all of those charged with governance are involved in managing the entity, any fraud that we have identified or information we have obtained that indicates that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees who have significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit and Governance Committee responsibility. | <p>We have asked management and those charged with governance about arrangements to prevent and/ or detect fraud.</p> <p>We have also focused our consideration of management override and revenue recognition towards higher risk areas, see Areas of audit focus in the report.</p> <p>We have not become aware of any fraud or illegal acts during our audit.</p> |
| Related parties | <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 to report |
| Subsequent events | <ul style="list-style-type: none"> ▶ Asking the Audit and Governance Committee, where appropriate, about whether any subsequent events have occurred that might affect the financial statements. | We have made enquiries of management and those charged with governance. We have no matters to report |
| Other information | <ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements and management refuses to make the revision. | We have no matters to report |
| External confirmations | <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 |



Appendix A

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Consideration of laws and regulations | <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. ▶ Asking the Audit and Governance Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements. | We have not identified any material instances or non-compliance with laws or regulations as a result of asking the Audit and Governance Committee and management. |
| Significant deficiencies in internal controls identified during the audit | <ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. | 25 September 2017 Audit Results Report |
| Independence | <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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> | 13 March 2017 Audit Plan 25 September 2017 Audit Results Report |
| Fee Reporting | <p>Breakdown of fee information at the agreement of the initial audit plan</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work undertaken</p> | 13 March 2017 Audit Plan 25 September 2017 Audit Results Report |
| Certification work | Summary of certification work | Certification Report (due later this year) |



Appendix B

Independence

We confirm there are no changes in our assessment of independence since the confirmation in our audit plan of 13 March 2017.

We complied with the APB Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your members consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Governance Committee on 25 September 2017.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

| | Final fee 2015/16 | Planned fee 2016/17 | Scale fee 2016/17 | Final fee 2016/17 |
|---|----------------------|------------------------|----------------------|----------------------|
| Audit fee - code work | 48,230 | 48,230 | 48,230 | 48,230 |
| Certification of claims and returns | 15,959 | 11,310 | 11,310 | 11,310** |
| Additional fee in relation to the valuation of Daedalus | 0 | 0 | 0 | 1,500* |
| Total audit fee | 64,189 | 59,540 | 59,540 | 61,040 |

*The final fee for our audit work, of £49,730, will be confirmed following the presentation of this report at the Audit and Governance Committee. We have discussed the additional fee of £1,500, for the work our property experts carried out on the valuation of Daedalus, with the Responsible (S151) Officer when we met on 7 September 2017. This is still to be agreed and will be discussed at the Audit and Governance Committee meeting.

We will also need to agree the additional fee of £1,500 with PSAA Ltd.

** Our final fee for our work on the Housing Benefit subsidy claim will be confirmed following completion of the work by the deadline of 30 November 2017; and reported in our certification report.



Appendix C

Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]

25 September 2017

Helen Thompson
Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton
SO14 3QB,

This letter of representation is provided in connection with your audit of the financial statements of Fareham Borough Council ("the Council") for the year ended 31 March 2017. 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 (or 'present fairly, in all material respects,') the financial position of the Authority as of 31 March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 (England) 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge 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 and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the financial statements.



Appendix C

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. 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 2016/17 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 known actual or suspected noncompliance 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 as agreed in terms of the audit engagement.
 - 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, and all committees including the Audit and Governance Committee.
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



Appendix C

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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. 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,

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Expenditure Funding Analysis

1. That we have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the



Appendix C

Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.

2. We confirm that the financial statements reflect the operating segments reported internally to the Council.

I. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

J. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the Local Government Pension Fund balances and the valuation of Daedalus and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours Faithfully,

Andrew Wannell
Responsible Financial (S151) Officer

I confirm that this letter has been discussed and agreed at the Fareham Borough Council's Audit and Governance Committee on 25 September 2017.

Councillor Jonathan Butts
Chairman of the Fareham Borough Council's Audit and Governance Committee

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.

All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com

