

Fareham Borough
Council
Audit results report
Year ended 31 March 2019

July 2019



Private and Confidential

11 July 2019

Dear Audit and Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Fareham Borough Council for 2018/19.

We are progressing our audit of Fareham Borough Council (the Authority) for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the deadline of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit and Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 22 July 2019.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This 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 April 2018)' 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. 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.



01

Executive Summary



Executive Summary

Scope update

In our Audit Planning Report presented at the 11 March 2019 Audit and Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality. In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.333m. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross revenue expenditure, we have updated our overall materiality assessment to £1.377m. This results in updated performance materiality, at 75% of overall materiality, of £1.033m, and an updated threshold for reporting misstatements of £0.068m.

Status of the audit

We are progressing our audit of Fareham Borough Council's financial statements for the year ended 31 March 2019 and are performing the procedures outlined in our Audit planning report.

The shorter deadlines mean a condensed period to undertake our work, and necessarily we are working to the 31 July deadline. Having started our audit on 1 July 2019 we have made good initial progress, but your request to provide this report on 11 July means that we are only approximately 50% through the planned timetable. Therefore, progress should be read in that context. We will provide you with a verbal update on our progress at the 22 July Audit and Governance Committee.

Subject to satisfactory completion of our audit procedures we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3.

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

At the time of writing there were no audit differences in the draft financial statements.

Until our work is complete, further amendments may arise. We will update the Committee should any further adjustments arise from our remaining work.



Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Fareham Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

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

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Governance Committee.

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 and which is unknown to you.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified no significant risks over sustainable resource deployment. We have revisited this assessment and considered the wider results of our other audit procedures; we identified no significant risks.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Details can be found in Section 5 Value for Money.



Executive Summary

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 of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However as the Council is below the testing threshold set by the NAO we do not expect to have any issues to report.

We have no other matters to report.

Independence

We have no matters to highlight on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue recognition – capitalising revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This could result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What judgements are we focused on?

We focused on the following:

- Understanding the controls relevant to this significant risk;
- For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support these additions and expenditure. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

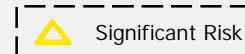
What did we do?

- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Amended our sample sizes when testing additions to reflect the existence of this risk. Agreed samples to source documentation to ensure the capital/revenue split was reasonable; and
- Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.

What are our conclusions?

Based on the work completed at the time of drafting this report:

- We have not identified any issues with the classification of capital expenditure.
- We have not identified any instances of inappropriate judgements being applied.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

As identified in ISA (UK) 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.

The manipulation of capitalising expenditure could also occur through management override of controls.

What judgements are we focused on?

We focused on the following:

- Understanding the risks of fraud and the controls put in place to address those risks by management and how the Audit & Governance Committee oversees management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

What did we do?

- Wrote to the s151 officer, Chair of the Audit and Governance Committee and the Head of Finance and Audit in this regard and reviewed their responses;
- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

Based on the work completed at the time of drafting this report:

- 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, or of any management bias.
- We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.





Areas of Audit Focus

Other financial statement risk

Valuation of land and buildings

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the valuer including their professional capabilities; and
- The reasonableness of the underlying assumptions used by the Council's expert valuer.

What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Reviewed the relationship of the valuer to the Council;
- Challenged the assumptions used by the Council's valuers by reference to external evidence;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Reviewed assets not subject to valuation in 2018/19 and confirmed that the remaining asset base was not materially misstated;
- Sample tested key asset information used by the valuers in performing their valuation;
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

What are our conclusions?

We have not been able to complete this complex area of work in the time available to draft out report for the Committee paper deadline.

Our work is well progressed and we will provide you a verbal update on the outcome of our procedures at the Audit and Governance Committee on 22 July 2019.



Areas of Audit Focus

Other financial statement risk

Pension Liability valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £57.594m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Authority's expert – AON Hewitt;
- Ensuring the information supplied to the actuary in relation to Fareham Borough Council was complete and accurate; and
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from AON Hewitt.

What did we do?

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Fareham Borough Council;
- Assessed the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered relevant reviews by the EY actuarial team;
- Reviewed the actuaries estimates to outturn information where available; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

Our work in this area is substantially complete.

We obtained assurances from the auditors of Hampshire Pension Fund that the information supplied to the actuary in relation to Fareham Borough Council was accurate and complete.

We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: AON Hewitt.

We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.

Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

We identified an adjusting event after reporting date relating to the pension fund liability, the effect of which increased past service cost and gross liability. The Council has contacted the actuary for an updated IAS 19 report and have agreed to amend the accounts if this is material.



Areas of Audit Focus

Other areas of audit focus

NDR Appeals Valuation

What is the risk?

The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements.

In addition, in previous years we have identified errors above our audit differences threshold.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists;
- The reasonableness of the assumptions made to any appeals lodged against the 2017 ratings list, and the Council's assumptions for appeals as yet unlodged.

What did we do?

- Reviewed the calculation of the provision for accuracy;
- Ensured calculation of the provision included consideration of unlodged appeals;
- Considered the relevance and reasonableness of assumptions, methods and models used by the management specialist; and
- Performed post year-end review of appeals settled to determine whether the revised rateable value and effective date of the appeal are in line with the provision

What are our conclusions?

Our work in this area is still in progress and we will provide you a verbal update on the outcome of our procedures at the Audit and Governance Committee on 22 July 2019.



Areas of Audit Focus

Other financial statement risk

New accounting standards – IFRS 9

What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and changed how financial assets are classified and measured, how the impairment of financial assets are calculated, and the disclosure requirements for financial assets.

What did we do?

- Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;
- Considered the classification and valuation of financial instrument assets;
- Reviewed the new expected credit loss model impairment calculations for assets; and
- Checked additional disclosure requirements

What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues;
- Financial instruments were appropriately classified and valued in line with the requirements of IFRS 9;
- We have reviewed the new expected credit loss model impairment calculations for assets and identified no issues; and
- Additional disclosure requirements were in line with the requirements of IFRS 9.



Areas of Audit Focus

Other financial statement risk

New accounting standards – IFRS 15

What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

Where the standard is relevant, the recognition of revenue will change and new disclosure requirements introduced

What did we do?

- Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.
- Considered application to the authority's revenue streams, and where the standard was relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and
- Checked additional disclosure requirements.

What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues;
- For relevant revenue streams we confirmed that revenue was recognised in line with the requirements of IFRS 15; and
- Additional disclosure requirements were in line with the requirements of IFRS 15.



Areas of Audit Focus



Other matters

Assessment of new Accounting Standards

- IFRS 16 Leases: Implementation date for IFRS 16 is 1 April 2020. In your view the impact of the introduction of IFRS 16 and its amendments is not material as the Council is not party to significant operating leases as lessee. In our view, given the immaterial balance of operating leases as lessee in the accounts, it is unlikely that the future implementation of IFRS 16 will have a material impact on the single entity financial statements of the Council. Lessor arrangements remain unchanged under IFRS 16.



03 Audit Report



Audit Report

Draft audit report

Our proposed audit report

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

Opinion

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2019 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,
- The related notes 1 to 34,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2019 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 2018/19

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Deputy Chief Executive Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Deputy Chief Executive Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



Audit Report

Our proposed audit report

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, 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 2019.

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.

Responsibility of the Deputy Chief Executive Officer

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 23, the Deputy Chief Executive 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Deputy Chief Executive Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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.



Audit Report

Our proposed audit report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 2017, as to whether the 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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.

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.

Use of our report

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



04 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 no matters to bring to your attention.

We will also update the Committee if there are any further issues arising from our incomplete audit procedures.

At the time of writing our report there were no uncorrected misstatements.

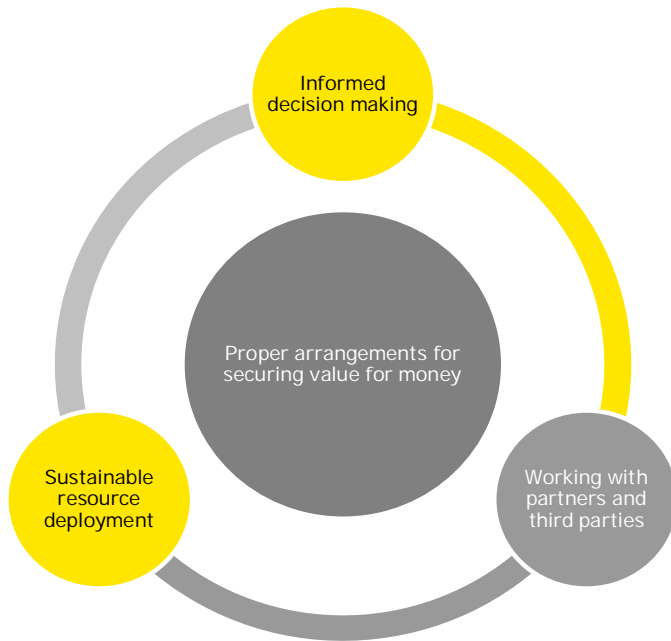


05

Value for Money Risks



Value for Money



Background

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.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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 did not identify any significant risks around these criteria. We are satisfied that the Authority has adequate arrangements in place in regard to financial resilience over the medium term.

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



06 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 Statement of Accounts 2018/19 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.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

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.

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, is specified by the National Audit Office.

We are currently concluding our work in this area, but anticipate have no matters to report as the Council is below the £500m threshold for undertaking detailed audit procedures.

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 Authority 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 Authority, 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.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

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

We have no matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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.

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 therefore 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 to you 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 your financial statements of which you are not aware.



08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics – Journal entries

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

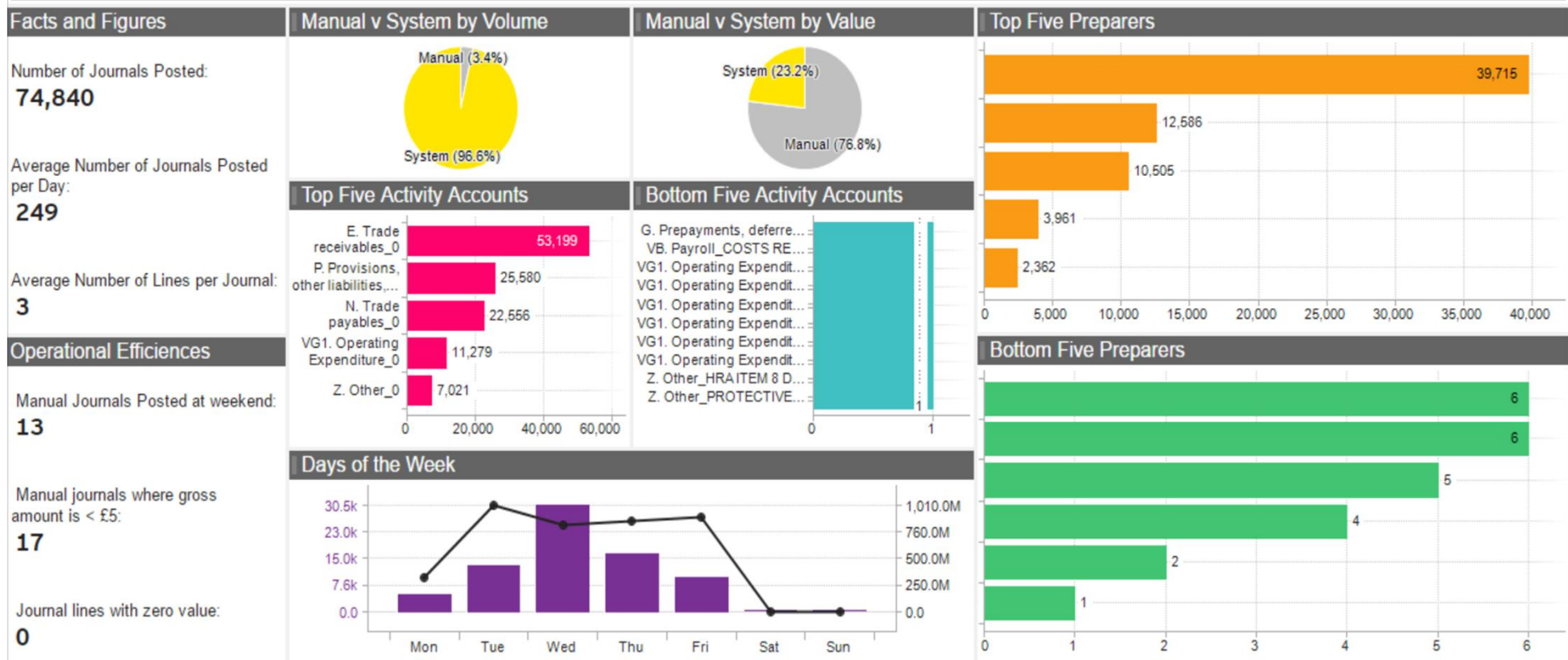


Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples. On completion of our procedures we will share this information with management to provide additional insight and value from our audit procedures.

EY Helix - GLASS: Journal Entry Data Insights - Fareham Borough Council - 3/31/2019





Journal Entry Testing

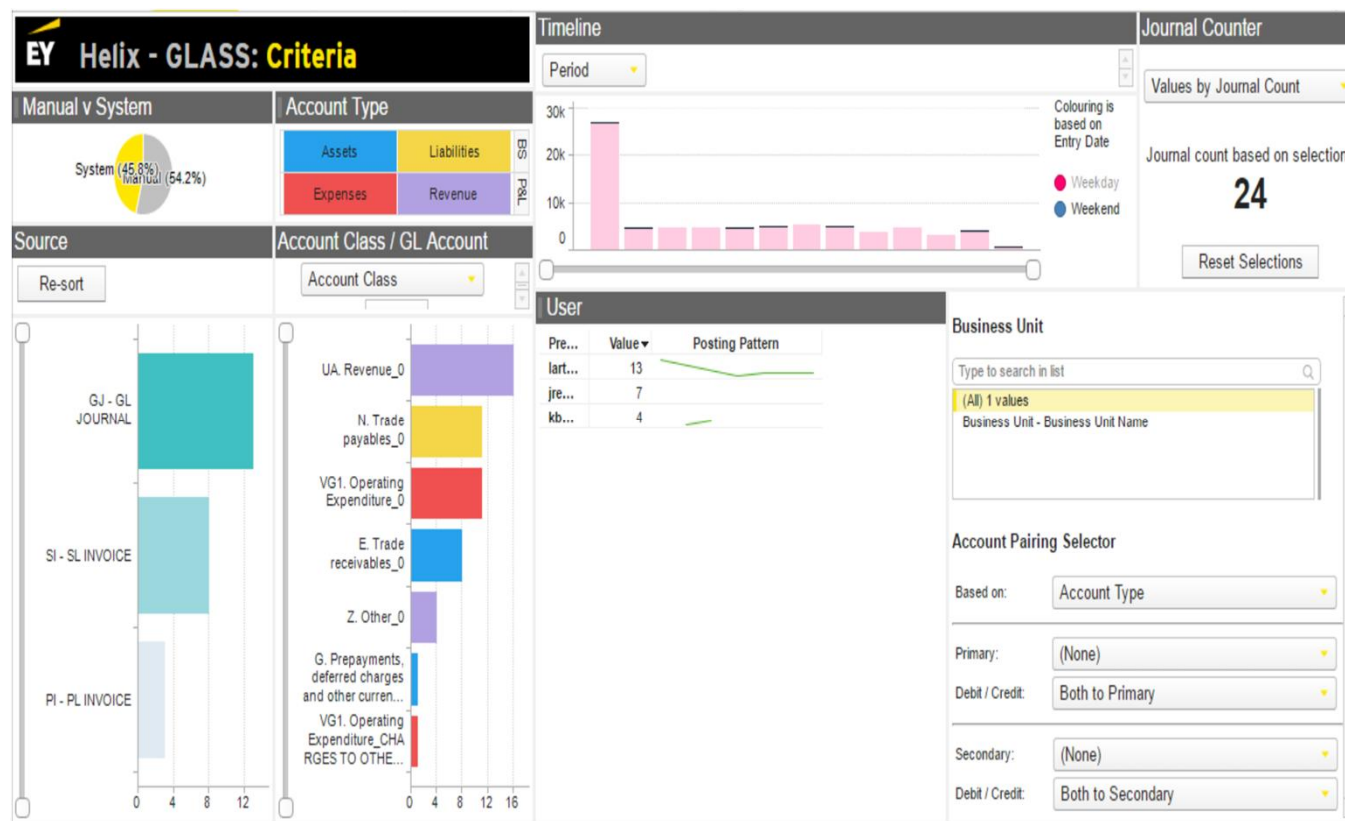
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Journal entry data criteria – 31 March 2019

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

The graphic shows journals posted on weekends which was one of our criteria considered for unusual journals

What are our conclusions?

Our work in this area is still in progress. We will isolate a sub set of journals for further investigation and obtain supporting evidence to verify the posting of these transactions and conclude whether they were appropriately stated.



9

Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 1 February 2019.

We complied with the FRC 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 Audit and Governance Committee 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 22 July 2019.

We confirm we have not undertaken non-audit work outside the NAO Code requirements.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

As at the date of this report, we are contracted to provide audit services for a further four years from 1 April 2019.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	TBC*	37,137	37,137	48,230
Non-audit work – Grant claims	N/A	N/A	N/A	18,391
Total non-audit services	N/A	N/A	N/A	18,391
Total fees	TBC*	37,137	37,137	66,621

* The final fee for our Code work will be confirmed upon completion by the 31st July deadline. We will report the final fee to the Audit and Governance Committee in our Annual Audit Letter.



10 Appendices

Appendix A

Required communications with the Audit Committee




There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

Our Reporting to you		
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit and Governance Committee 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
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	11 March 2019 Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	11 March 2019 Audit planning report
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 	11 March 2019 Audit planning report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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 	July 2019 Audit results 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 Material misstatements corrected by management 	July 2019 Audit results report
Subsequent events	<ul style="list-style-type: none"> Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	22 July 2019 To be confirmed with letter of representation at Audit and Governance Committee meeting
Fraud	<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 Authority Any fraud that we have identified or information we have obtained that indicates that a fraud may exist Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> Management; Employees who have significant roles in internal control; or Others where the fraud results in a material misstatement in the financial statements. The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected Any other matters related to fraud, relevant to Audit and Governance Committee responsibility. 	July 2019 Audit results report We have no matters to report




Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <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 Authority 	July 2019 Audit results report We have no matters to report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	11 March 2019 Audit planning report July 2019 Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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. 	July 2019 Audit results report We have no matters to report
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Audit and Governance 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 of 	July 2019 Audit results report We have no matters to report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	July 2019 Audit results report We have no matters to report

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	July 2019 Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	July 2019 Audit results report We have no matters to report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	July 2019 Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	11 March 2019 Audit planning report July 2019 Audit results report

Appendix B

Management representation letter

Management Rep Letter

To be prepared on Fareham Borough Council's letterhead

XX July 2019

Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton
SO14 3QB United Kingdom

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 31 March 2019. 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 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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 2018/19.
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 and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. 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.

Management representation letter

Management Rep Letter

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 2018/19, 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. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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 and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*.
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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter

Management Rep Letter

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.

D. 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 all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than the events described in Note 9 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.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Comparative information – corresponding financial information

1. The 2017/18 net cost of services figures have been restated to reflect changes in portfolio services. The biggest change relates to the Housing Benefits service which was previously shown within the Policy and Resources Portfolio and is now reported within the Housing Portfolio.
2. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

Management representation letter

Management Rep Letter

H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist – Actuary

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the net pension liability and have adequately considered the qualifications of the specialists 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 specialists 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 specialists.

K. Use of the Work of a Specialist – Property valuers

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment property and operational land and buildings and have adequately considered the qualifications of the specialists 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 specialists 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 specialists.

L. Estimate – NNDR appeals and other provisions

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of provisions (including the NNDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Management representation letter

Management Rep Letter

M. Estimates - Valuation of Council land and buildings estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the valuation of land and buildings estimate appropriately reflect our intent and ability to use and maintain these assets on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

N. Estimate – Pensions Valuation Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the pensions valuation estimate appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

O. 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.

Yours faithfully,

Andrew Wannell – Deputy Chief Executive Officer (S151 Officer)

Councillor Johnathan Butts - Chair of the Audit and Governance Committee

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