

Fareham Borough  
Council  
Audit results report  
Year ended 31 March 2020

November 2020



10 November 2020

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 2019/20.

We have substantially completed our audit of Fareham Borough Council (the Authority) for the year ended 31 March 2020.

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 accounts publication date of 30 November 2020. 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 23 November 2020.

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.psa.co.uk](http://www.psa.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

Our Audit Planning Report was issued on 26 February 2020 and was due to be presented at the 23 March Audit and Governance Committee meeting. However, this meeting was cancelled due to Covid-19. In our audit planning report 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 to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

### Changes to our risk assessment as a result of Covid-19

We issued an update to our Audit Planning Report in June where we set out the following changes to our risk assessment as a result of Covid-19:

- Valuation of Investment Properties - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's internal valuer. We consider that the material uncertainties disclosed by the valuer gave rise to a significant risk relating to the valuation of and disclosures for investment properties, which are held at Fair Value. Our assessment of Property, Plant and Equipment (PPE) valuations remained unchanged as these are not valued at Fair Value.
- Disclosures on Going Concern - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Adoption of IFRS16 - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.326m, with performance materiality, at 75 % of overall materiality, of £0.994m, and a threshold for reporting misstatements of £0.066m. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

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 £1.313m (Audit Planning Report – £1.326m). This results in updated performance materiality, at 75% of overall materiality, of £0.985m. The threshold for reporting misstatements remained unchanged at of £.066m.

# Executive Summary

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## Scope update

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

Additional procedures are required to ensure that sufficiency and consistency of the audit report, given the Covid-19 context.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 38.

## Executive Summary

### Status of the audit

We have substantially completed our audit of Fareham Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Testing and review of property valuations
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We have considered whether our audit opinion will need to emphasise the impact of Covid-19 on property valuations and the going concern assumption. However, the updated disclosures by management sufficiently describe the material events and conditions in relation to the impact of Covid-19 and we do not deem these disclosures fundamental to the users understanding of the accounts:

Investment properties and PPE valuation – The Council has disclosed its consideration of the impact of COVID-19 on the valuation of its investment properties and PPE and the material uncertainty referred to in the valuers report, having regard to the specific composition of land and building assets carried on its balance sheet. Valuations were carried out at the balance sheet date but due to the impact of COVID-19 on the market at year-end the internal valuers have indicated that less certainty can be attached to these valuations.

Going concern – The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake a detailed assessment to support its going concern assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. We agree that the Council's accounts should be prepared on the going concern basis. However, we have recommended and management have agreed to enhance the disclosures to reflect these events and conditions which impacts on financial planning and the going concern assumption.

We are now satisfied with the revised disclosure and that it adequately and sufficiently discloses material events and conditions in relation to the going concern assumption of the Council.

# Executive Summary

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## Audit differences

At the time of writing we identified two unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit and Governance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £1,397k. We agree with management's assessment that the impact is not material.

We have also identified audit differences with an aggregated impact of £1,454k which have been adjusted by management. Details can be found in Section 4 Audit Differences.

## 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.





# Executive Summary

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## 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 for our value for money conclusion.

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.

## 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. Instructions to auditors have only recently been issued. However as the Council is below the testing threshold set by the NAO we do not anticipate 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

### Inappropriate capitalisation of 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 would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. The manipulation of capitalising expenditure could occur through management override of controls.

#### 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.

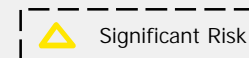
#### What did we do?

- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Amended our sample sizes when testing PPE additions to reflect the existence of this risk.
- Agreed samples to source documentation to ensure that any 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?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. 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.

#### 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 and 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.

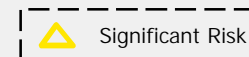
#### What did we do?

- 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.
- We did not identify any inappropriate recording of journal entries during the year or during preparation of the financial statements





## Areas of Audit Focus

### Significant risk

#### Valuation of Investment Properties

##### What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

##### Update – Covid-19 related constraints on property valuation

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impact is expected to affect Investment Properties as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer.

##### 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 internal valuer.

##### What did we do?

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work
- Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer;
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; and
- Tested accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty including in Note 9 'Assumptions made about the future and other sources of estimation uncertainty; and
- Obtained input from EY Real Estates (EYRE), our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the Estimated Rental Values (ERVs)/yields.





## Areas of Audit Focus

### Significant risk

#### Valuation of Investment Properties (cont.)

##### What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

##### Update – Covid-19 related constraints on property valuation

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impact is expected to affect Investment Properties as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer.

##### What are our conclusions?

- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have reviewed the classification and valuation methods used. We identified no issues.
- We reviewed the scope and relationship of the valuer to the Council and identified no issues.
- We were satisfied that disclosures in the accounts were appropriate concerning the material uncertainty.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues

Furthermore, we reviewed inputs obtained from EYRE on asset valuations for Investment Properties which confirmed that, except for the following properties, the assumptions used, including those related to ERVs/yields were appropriate. Management opted not to correct the differences below as the net impact was immaterial:

- 1-3 Ridgeway – valuation £133k above the upper end of our expected range of £8.665m. This was mainly due to the inclusion of acquisition cost and SDLT in management's valuation which is not appropriate to recognise under the fair value basis
- Broadcut Retail Park – valuation £570k above the upper end of our range of £4.45m. This was mainly due to the inclusion of acquisition cost and SDLT in management's valuation which is not appropriate to recognise under the fair value basis

We subsequently reviewed the full population of properties to determine the extent of acquisition costs and SDLT included in other property valuations and identified a further overstatement of £494k in relation to these properties resulting in a total overstatement of £1,197k

- Unit 27 Palmerston Business Park - £22k below the lower end of our expected range of £163k but this is one unit on the wider estate out of 28 units and if the remaining units are let on a similar basis the understatement would amount to £619k. Management adopted a yield of 11% whereas our research determined an equivalent yield of 7%-9%.



## Areas of Audit Focus

### Other financial statement risk

#### Valuation of land and buildings

##### What is the risk?

The fair value of 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.

##### Update – Covid-19 related constraints on property valuation

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impact is expected to affect PPE valued at Existing Use Value (EUV) as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer.

##### 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 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 2019/20 to confirm 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; and
- Tested accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Considered the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions;
- Ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty; and
- Obtained input from EY Real Estates (EYRE), our internal specialists on asset valuations for PPE, including inputs on market sentiment and how it has been reflected in valuations which are based on EUV



## Areas of Audit Focus

### Other financial statement risk

#### Valuation of land and buildings (cont.)

##### What is the risk?

The fair value of 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.

##### Update – Covid-19 related constraints on property valuation

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. This impact is expected to affect PPE valued at Existing Use Value (EUUV) as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer.

##### What are our conclusions?

We have not been able to complete this complex area of work in the time available to draft our report for the Committee paper deadline. Our work is substantially complete and we will provide you with a verbal update on the outcome of our procedures at the Audit and Governance Committee meeting on 23 November 2020. To date:

- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have reviewed the classification and valuation methods used. Other than the matter mentioned below in relation to Community Centres, we identified no issues with the classification and valuation methods used by management.
- We considered the annual cycle of valuations and confirmed that assets have been valued within a 5 year rolling programme as required by the Code .
- We reviewed assets not subject to valuation in 2019/20 and confirmed that the remaining asset base was not materially misstated.
- We reviewed the scope and relationship of the valuer to the Council and identified no issues.
- We were satisfied that disclosures in the accounts were appropriate concerning the material uncertainty.
- We reviewed inputs obtained from EYRE which confirmed that the assumptions used were appropriate.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues.

Furthermore, we reviewed inputs obtained from EYRE on asset valuations for PPE which confirmed that the incorrect valuation method was used to value the Crofton Community Centre resulting in a material understatement of the valuation. For Community Centres we judge the Depreciated Replacement Cost method to be the appropriate valuation method as this method reflects the service potential of the asset to the Council, rather than the income approach adopted by management. Whilst there is a rental market for such facilities, arrangements are often at discounted rents with the lease linked to the service provision and there is little or no evidence of such facilities selling as investments. Management has since revised their valuations for all its Community Centres and we are currently reviewing these valuation adjustments.



## 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 2020 the net pension liability totalled £62,349k.

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; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

##### What are our conclusions?

We obtained assurances from the auditors of Hampshire County Council 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.

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 McCloud judgement, the effect of which would have decreased the net pension liability. However, an allowance had already been made for McCloud in the previous year's net pension liability valuation and the IAS 19 figures provided by Aon fully took into account the material aspects of the McCloud judgement. Furthermore, the fair value of plan assets of the pension fund increased by £891k (Fareham Borough Council's share) resulting in a decrease in the net pension liability. Management opted not to amend the accounts as the impact was immaterial and therefore did not request an updated IAS 19 report from the Actuaries.



## Areas of Audit Focus

### Other financial statement risk

#### Going concern

##### What is the risk?

The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake a detailed assessment to support its going concern assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2019/20 statements, for example, we will need to see evidence of an assessment up to and including October 2021. This will need information relevant to the 2021/22 financial year.

##### What judgements are we focused on?

We focused on management's assessment of the going concern assumption in preparing the Council's financial statements. We also reviewed management's cash flow forecasts to determine whether expected forecasting appeared reasonable and whether it was sufficient to enable the Council to continue its operations.

We also discussed with management further disclosures required in the 2019/20 statements on going concern and in particular, material events and uncertainties

##### What did we do?

- We reviewed the Audit and Governance Committee's assessment of the appropriateness of the going concern assumption;
- We reviewed and challenged the level and form of disclosure of this assessment made in the financial statements, given the Covid-19 pandemic; and
- Reviewed the Council's cash flow forecasts and financial plans for the foreseeable future to ensure that these are sufficiently robust and supported by adequate evidence, and that the cash flow forecasts demonstrate that the Council has sufficient liquidity to continue its operations.

##### What are our conclusions?

- Our review of management's continued use of the going concern assumption concludes it remains appropriate;
- We reviewed the proposed going concern disclosures for inclusion in the financial statements. We identified that the first draft of the proposed disclosure was very brief, and provided limited information and understanding to the reader of the financial position and management subsequently enhanced the disclosures;
- In our view no significant uncertainty exists that may cast doubt on the Council's ability to continue as a going concern, which would be required to be disclosed. The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital.
- The Council has updated its disclosures in the accounts to reference these factors and we are now satisfied with the revised disclosure and that it adequately and sufficiently discloses material events and conditions in relation to the going concern assumption of the Council and that no material uncertainties exist.





## Areas of Audit Focus

### Other financial statement risk

#### 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 unlogged.

##### What did we do?

- Reviewed the calculation of the provision for accuracy;
- Considered the work performed by the Council expert, Analyse Local and understood the assumptions used in their calculation;
- Ensured the Council has amended the provision appropriately for any Business Rate reliefs awarded; 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?

We have reviewed the calculation of the provision and confirmed that the calculation initially used a 4.7% national guideline to determine the estimate of outstanding appeals. This did not take into account local considerations. Our recalculation resulted in a £528k understatement which management corrected.

We reviewed the assumptions, methods and models used by management's specialist. We identified no issues.

Our post year-end review of appeals settled identified no issues.



# Areas of Audit Focus



## Other matters

### Assessment of new Accounting Standards

- IFRS 16 Leases: Due to the COVID-19 pandemic, implementation date for IFRS 16 has been deferred to 1 April 2021. 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



# Draft Audit Report

## Draft audit report

### Our opinion on the financial statements

#### 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 2020 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, Movement on the Housing Revenue Account Statement, the notes to the Housing Revenue Account, 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2020 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 2019/20.

##### 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.



# Draft Audit Report

## Our opinion on the financial statements

### Other information

The other information comprises the information included in the Annual Statement of Accounts for the year 2019/20, 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.

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 April 2020, 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 2020.

### 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 set out on page 18, 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 2019/20, 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.





# Draft Audit Report

## Our opinion on the financial statements

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities 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 April 2020, 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 2020.

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 highlight the following misstatements greater than £0.066m identified during the course of our audit which management are in the process of correcting:

- A difference of £76k between the Orchards system creditors listing and the trial balance
- A difference of £471k between the Note 18 Property, Plant and Equipment and the valuation report for Council Dwellings
- An overstatement of £184k in relation to short term debtors due to an error on clearing the cash control accounts to council tax and NNDR;
- An understatement of £528k in relation to the NDR Appeals provision. Management used a national figure of 4.7% to determine its NDR Appeals provision rather than using local knowledge of appeals;
- An understatement of £196k in relation to an investment property that was valued on the basis of the potential future use (longer term redevelopment) when it was more appropriate to value the property based on current use when assessing the fair value; and
- Some minor misstatements in disclosures

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

## Audit Differences

### Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit and Governance Committee and provided within the Letter of Representation:

	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Reserves	CIES
Uncorrected misstatements	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period
Known differences:						
▶ Valuation difference in relation to the Fair Value of plan assets of the Pension Fund				£891k	(£891k)	
Judgemental differences:						
▶ Overstatement of investment property valuations in relation to acquisition costs included in management's valuation		(£1,197k)				£1,197k
▶ Understatement of the valuation for Palmerston Business Park due to the use of a higher yield resulting in a lower valuation		£618k				(£618k)
<b>Total</b>	-	(578k)	-	£891k	(£891k)	£578k

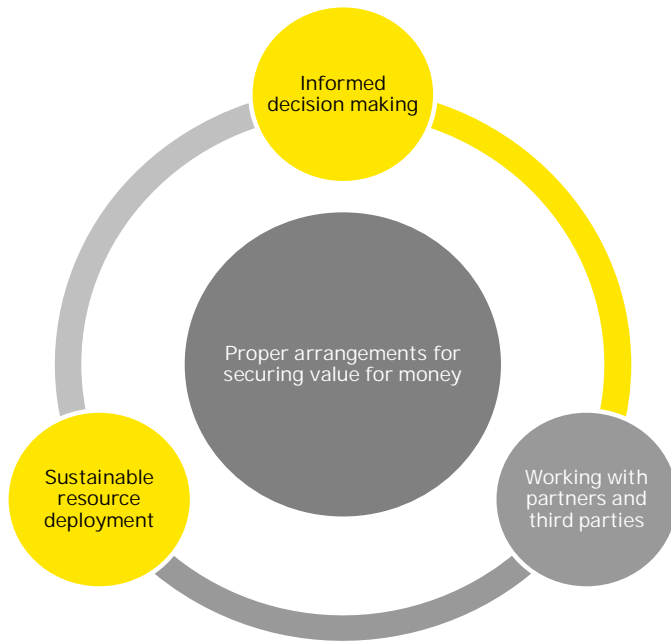




# 05 Value for Money



# 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 2019/20 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.

## Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

## Overall conclusion

We did not identify any significant risks around these criteria.

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 Annual Statement of Accounts 2019/20 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 Annual Statement of Accounts 2019/20 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. These instructions have only recently been received.

We 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 - *None*;
- Any significant difficulties encountered during the audit - *None*;
- Any significant matters arising from the audit that were discussed with management - *None*;
- Written representations we have requested – *Management assurance letter is still outstanding*;
- Expected modifications to the audit report - *None*;
- Any other matters significant to overseeing the financial reporting process - *None*;
- Related parties - *None*;
- External confirmations - *None*; and
- Consideration of laws and regulations - *None*.





07

## Assessment of Control Environment



# Assessment of Control Environment

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## 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 2019/20, 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.



09

# Independence

## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated 26 February 2020. We complied with the APB Ethical Standards. 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 that should be reviewed by both you and ourselves. It is therefore important that you and your Audit and Governance Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 19 October 2020.

Our fees below do not include the scale fee review which is currently underway with PSAA to agree whether the scale fees for Local Government need to be rebased to account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. Discussions with PSAA remain ongoing.

	Final Fee 2019/20	Planned Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£	£
Total Audit Fee – Code work	54,820*	37,137	37,137	38,265
Non-audit work – Grant claims	N/A**	N/A**	N/A**	N/A**
Total non-audit services	N/A	N/A	N/A	N/A
Total fees	54,820*	37,137	37,137	38,265

## Confirmation and analysis of Audit fees (continued)

\* The final fee for our Code work will be confirmed upon completion of the audit. We will report the final fee in relation to the audit to the Audit and Governance Committee in our Annual Audit Letter. For 2019/20, the final fee has been impacted by a range of factors which has resulted in additional work. We set out an estimate of the potential additional fee for this below which we will discuss with the Deputy Chief Executive Officer and is subject to approval by PSAA:

- The need to engage EY Real Estate to review a sample of valuations of investment properties and EUV assets, 14 assets in total, c.£14,000
- Review of additional disclosures that were required in relation to going concern, c.£2,500
- Additional work performed in relation to Pension Fund IAS 19 data submission procedures undertaken for admitted bodies, c.£801
- Additional work undertaken on aspects of housing benefit income and expenditure which would previously have been performed as part of HB certification, £382 based on prior year. This had to be done separately as we are not the HBAP reporting accountant, therefore, increasing the scope where remuneration would previously have been under HBCOUNT principle through HB certification work. The detail of this work is as follows:

Module 2:

Establishing that the system parameters had been appropriately updated to ensure the correct calculation of benefit awarded.

Module 5 - Ensuring that:

- (1) The system has been upgraded to the latest subsidy software, therefore, correctly producing figures for the subsidy claim – including supplementary adjustment reports - which is the basis of the annual income and any dr/cr compared to payments on account.
- (2) Reconciliation of the draft claim form to the Financial Statements.
- (3) The system has been balanced, and benefit awarded can be reconciled to (a) the subsidy claimed, and (b) reconciles to the general ledger and financial statements of the authority recording the expenditure recognised for the year.

This work was undertaken by audit staff, with supervision from the audit senior

\*\* Since 2018/19 we are no longer the reporting accountant for HB certification.

# Independence

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## 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 2019 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

The fee table above includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the fee table above 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 three years from 1 April 2020.

## Other communications

### EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020)







A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

# 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.	November 2020 Audit results report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	November 2020 Audit results report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	November 2020 Audit results report

# Appendix A





		Our Reporting to you
Required communications	What is reported?	When and where
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"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	November 2020 Audit results report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	November 2020 Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	23 November 2020 To be confirmed with letter of representation following the Audit and Governance Committee meeting
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• 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"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit and Governance Committee responsibility.</li> </ul>	<p>November 2020 Audit results report</p> <p>We have no matters to report</p>

# 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"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	November 2020 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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	26 February 2020 Audit planning report November 2020 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"> <li>Management’s refusal for us to request confirmations</li> <li>Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	November 2020 Audit results report  We have no matters to report
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>	November 2020 Audit results report  We have no matters to report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	November 2020 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"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	November 2020 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"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	November 2020 Audit results report We have no matters to report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	November 2020 Audit results report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	26 February 2020 Audit planning report November 2020 Audit results report



# Management representation letter

## Management Rep Letter

Ernst & Young  
Grosvenor House  
Grosvenor Square  
Southampton  
SO15 2BE

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 2020. 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 2020 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 2019/20.

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), 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 2019/20.

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 2019/20, 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.

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 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

### 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.

# Management representation letter

## Management Rep Letter

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:

- involving financial statements;
- 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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

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.

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.

7. From 31 July 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

### 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.

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3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 39 to the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. Other than described in Note 2 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, 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 Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. 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. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

### H. Reserves

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

### I. 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.

### J. 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 the 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.

### K. 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 are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
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.

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3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

### L. Estimate – 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 are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the valuation of land and buildings 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, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

### M. 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 are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

### N. 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,

\_\_\_\_\_  
(Deputy Chief Executive Officer)

\_\_\_\_\_  
(Chair of the Audit and Governance Committee)



## Appendix C

# Accounting and regulatory update

## Future accounting developments

The following table provides a high level summary of the future accounting developments that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact Fareham Borough Council 
IFRS 16	<ul style="list-style-type: none"> <li>HM Treasury have agreed with the Financial Reporting Advisory Board (FRAB) to defer the implementation of IFRS 16 Leases until 1 April 2021. This is because of the circumstances caused by Covid-19.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority will need to undertake significant preparatory work for the implementation of this accounting standard. The Authority should review its implementation arrangements and ensure due consideration before the standard is implemented.</li> </ul>

## Regulatory update

Since the date of our last report to the Audit and Governance Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Fareham Borough Council
Code of Audit Practice 2020	<ul style="list-style-type: none"> <li>The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.</li> </ul>	<ul style="list-style-type: none"> <li>The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.</li> <li>Further updates will be provided when possible.</li> </ul>
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> <li>The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020.</li> <li>This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</li> </ul>	<ul style="list-style-type: none"> <li>Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage.</li> <li>Further updates will be provided when possible.</li> </ul>

## Accounting and regulatory update

Name	Summary of key measures	Impact on Fareham Borough Council
Independence	<ul style="list-style-type: none"><li>The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.</li></ul>	<ul style="list-style-type: none"><li>We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed.</li></ul>

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