



Fareham Borough Council
Year ending 31 March 2013

Audit Plan

27 June 2013

Audit and Governance Committee
Fareham Borough Council
Civic Offices
Civic Way
Fareham
Hants
P016 7PU

27 June 2013

Dear Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2012/ 2013 audit in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, and also to ensure that our audit is in line with the Committee's expectations.

This report summarises our assessment of the key risks driving the development of an effective audit for Fareham Borough Council, and outlines our planned audit strategy in response.

We welcome the opportunity to discuss this report with you on 27 June 2013 and understand any other matters which you consider may influence our audit.

Yours faithfully

Kate Handy
For and behalf of Ernst & Young LLP
Enc

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1. Overview

Context for the audit

This audit plan covers the work we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Fareham Borough Council give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended; and
- ▶ A statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focussed on the areas that matter. By focusing on these, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the audit of financial statements, and outline our plans to address them.

We will provide an update to the Audit and Governance Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2013.

Our process and strategy

- ▶ **Financial Statement Audit**
 - ▶ We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Council's level of gross expenditure. We also consider qualitative issues, such as the impact on the public's and other stakeholder understanding of your accounts and the information contained. Our audit is designed to identify errors above materiality.
 - ▶ We aim to rely on the Council's internal controls in the key financial systems. We identify those controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.
 - ▶ To the fullest extent permissible by auditing standards, we will seek to rely on the work of internal audit wherever possible. We have liaised with Internal Audit over their coverage of controls. We will review their work and assess where further work is required.
- ▶ **Arrangements for securing Economy, Efficiency and Effectiveness**
 - ▶ We adopt an integrated audit approach. Our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

2. Financial Statement Risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Fareham Borough Council identified through our knowledge of your operations and discussion with members and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
None	
Other financial statement risks	Our audit approach
Accounting for your interest in Portchester Crematorium	
<p>Fareham Borough Council is a constituent council of the Joint Committee for Portchester Crematorium.</p> <p>We are clarifying with you the ownership of the assets.</p>	<p>We have been liaising with you on your plans for disclosing your interest in the crematorium.</p>
Risk of misstatement due to fraud and error	
<p><i>The following risk is generic to all financial statements audits and is brought to your attention as those charged with governance.</i></p>	<p>Based on the requirements of auditing standards our approach will focus on:</p>
<p>Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p>	<ul style="list-style-type: none"> ▶ Identifying fraud risks during the planning stages. ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▶ Understanding the oversight given by those charged with governance of management's processes over fraud. ▶ Consideration of 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 regardless of specifically identified fraud risks.
<p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such a risk.</p>	<p>We will consider the results of the National Fraud Initiative and may refer to it in our reporting to you.</p>

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements for securing financial resilience at Fareham Borough Council; and
2. Whether there are proper arrangements at Fareham Borough Council to secure economy, efficiency and effectiveness in the use of resources.

The table below provides a high-level summary of our risk assessment and our proposed response to those risks. At this stage of our audit we have not identified any significant audit risks.

Other risks		Our audit approach
Financial standing		
The Council continues to experience challenges from reduced government funding.	Financial resilience	▶ We will review the Council's medium term financial strategy and the 2013/14 budget and evaluate the reasonableness of key assumptions.
	Economy, efficiency and effectiveness	▶ We will assess the Council's arrangements for ensuring financial resilience in the medium to long term.
Developments		
The Council is a key facilitator in several projects such as Welborne - the New Community North of Fareham (NCNF) and the development of the Daedelus site.	Economy, efficiency and effectiveness	Our approach will focus on: ▶ Reviewing the Council's arrangements for managing its risks.
	Financial resilience	▶ Assessing the financial implications of the developments for the Council, particularly for financial resilience.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in your use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on your Whole of Government Accounts return

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

As part of our audit planning procedures we have assessed the design of your internal controls determining that an effective audit strategy will be to take a controls reliance approach. Therefore we will test the controls we determine as key to preventing and detecting material misstatement in the processes we list below.

In implementing this strategy, we intend to place reliance on the work of internal audit as much as possible, while complying with the requirements of auditing standards. We will review their files and reperform a sample of their work to assess if we can do this.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

Our audit process and strategy

- Accounts receivable
- Accounts payable
- Business rates
- Council tax
- Cash processing
- Housing Benefits
- Payroll (including pensions)

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll, cash payments and receipts and journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit

We will review internal audit plans and the results of its work. We will reflect the findings from these, together with reports from other work completed in the year, where issues are raised that could have an impact on the year-end financial statements.

Use of experts

We will use specialist Ernst & Young resource as necessary to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and property valuations.

Other procedures

We have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- ▶ Addressing the risk of fraud and error.
- ▶ Significant disclosures included in the financial statements.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with NAO instructions.
- ▶ Reviewing, and where appropriate, examining evidence relevant to your corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". We intend to treat misstatements less than £60,123 as clearly trivial. All uncorrected misstatements found above this amount will be presented to you in our year-end report.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for your audit is £63,407

4.5 Your audit team

The engagement team is led by Kate Handy. She is supported by Catherine Morganti who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the chief accountant.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts; and the deliverables we have agreed to provide to you through the Audit and Governance Committee cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Audit and Governance Committee in September 2013 incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the committee Chairman as appropriate.

Our audit process and strategy

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Audit and Governance Committee timetable	Deliverables
High level planning:	January	March Committee	Audit Fee letter
Risk assessment and setting of scopes	January to April	June Committee	Audit Plan
Testing of routine processes and controls	February to April		
Year-end audit	July – September	September Committee	Report to those charged with governance
			Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
			Audit completion certificate
	October	November	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged for them; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit, we are also required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long-outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded for sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded for sales to you, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the adopted safeguards appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence. Kate Handy your audit engagement partner and the audit engagement team have not been compromised.

5.3 Other required communications

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 must publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

[UK 2012 Transparency Report](#)

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13 £'000	Actual Fee 2011/12 £'000	Explanation of variance
Total Audit Fee – Code work	63,407	105,678	40% reduction achieved by the Audit Commission outsourcing its audit practice.
Certification of claims and returns*	17,900	45,492	Our fee for the 2012/13 certification of grant claims is based on the indicative scale fee set by the Audit Commission. Additional testing will be charged separately Prior year fee represents actual hourly rates
Non-audit work	0	0	

The agreed fee presented above is based on the following assumptions:

- The level of risk in relation to the audit of the financial statements is consistent with that in the prior year;
- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are provided in line with our agreed timetable, are of a good quality, consistent with the accounts provided for audit, and are reviewed by an appropriate officer;
- Prompt responses are provided to our draft reports;
- An effective control environment operating for the whole of the financial year;
- No significant changes are being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- Our accounts and use of resources conclusion being unqualified.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications we must provide to the Audit and Governance Committee of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	
Misstatements	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	
Fraud	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	
External confirmations	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	
Consideration of laws and regulations	Report to those charged with governance
<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit 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 and Governance Committee may be aware of 	

Required communication	Reference
<p>Independence Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between Ernst & Young, the audited body and senior management ▶ Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The Audit and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit Plan Report to those charged with governance</p>
<p>Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Report to those charged with governance</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Opening Balances (initial audits)</p> <ul style="list-style-type: none"> ▶ Findings and issues regarding the opening balance of initial audits 	<p>Report to those charged with governance</p>
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<p>Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary</p>

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