

Appendix A

Fareham Borough
Council
Audit results report
Year ended 31 March 2021

February 2022



28 February 2022

Dear Audit and Governance Committee Members

2020/21 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit and Governance Committee. We will update the Audit and Governance Committee at its meeting scheduled for 14 March 2022 on further progress to that date and explain the remaining steps, and timeline, to issue of our final opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Fareham Borough Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Audit and Governance Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit and Governance Committee meeting on 14 March 2022.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

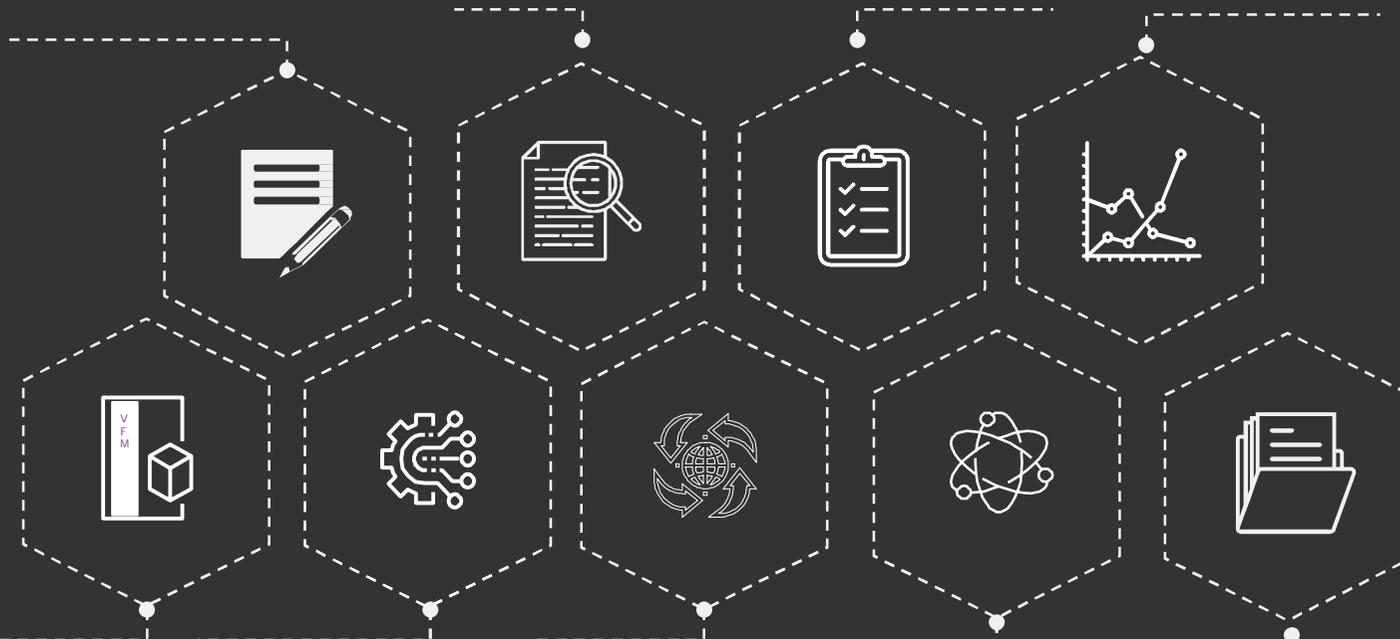
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented to the Audit and Governance Committee meeting on 12 July 2021, 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 updates:

Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 2% of gross expenditure on provision of services, adjusted for any unusual items.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We report all uncorrected misstatements relating to the primary statements greater than 5% of planning materiality.
Planning	£1.313 million	£0.985m	£0.066m
Final	£1.319 million	£0.989m	£0.066m

Auditing accounting estimates

A revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. We have considered the following areas as higher inherent risk estimates in our approach:

- The revaluation of land and buildings classified as Property, Plant and Equipment (PPE) and Investment Property (IP).
- Pension liability and asset valuation.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

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 Council'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
- Agreed IPE to scanned documents or other system screenshots.

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:

- Property, Plant & Equipment valuations testing – our work on assets valued using Existing Use Value (EUUV) is largely complete with 1 query relating to bird mitigation costs outstanding on a Daedalus asset, this was returned to the valuer on 28th February 2022. For assets valued at Depreciated Replacement Cost we have completed testing on 2 of 8 assets, and we received responses from our queries from the external valuer on 28th February 2022. We are currently reviewing these and differences have been identified in the areas used for the valuations. We are currently quantifying these differences and will give a verbal update at the committee.
- Update of our subsequent events procedures to the date of our opinion
- 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

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the accounts which could influence our final audit opinion.

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Executive Summary

Status of the audit – Value for Money

In the audit planning report presented to the Audit and Governance Committee, we reported that our value for money (VFM) risk assessment was not fully complete but that, at the time, we had not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have since completed our risk assessment and have also revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report.

Audit differences

There are no unadjusted differences as at 28th February 2022

There have been 4 material differences identified which have been adjusted for, these are:

- A reclassification of a property from investment property to other land and building (gross impact is £1.3m, impact on OCI £1m)
- Increase to pensions asset (£2.5m)
- Reclassification of principal Covid-19 grants from Creditors (£1.9m) to Income (£2.8m) and Expenditure (£2.8m)/ Receipts in advance (£1.9m)
- Reclassification of an amount in a cash control account from Creditors to Cash (£959k)
- Overstatement of the NNDR Appeals Provision of which Fareham's share is £989k.

A small number of other amendments have also been made to disclosures appearing in the financial statements as a result of our work to date.

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 been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (OSCAR) and update the guidance that is available for preparers. We do not anticipate having any issues to report as the Authority is expected to be below the threshold set by the NAO for full procedures.

We have no other matters to report.

Executive Summary

Objections

We have not received any objections to the 2020/21 accounts from members of the public.

Areas of audit focus

In our audit planning report we identified a number of key areas of focus for our audit of the financial report of Fareham Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error	We have not identified any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	<p>Our sample testing of additions to Property Plant and Equipment (PPE):</p> <ul style="list-style-type: none"> • Found costs had been correctly classified as capital and included at the correct value. • Did not identify any revenue items that were incorrectly classified as capital. <p>Our review of judgements taken by management found them to be reasonable.</p>
Significant Risk	Findings & Conclusions
Valuation of Investment Properties	Our work in this area is complete. We identified one error where Westbury Manor was valued at Depreciated Replacement Cost and incorrectly held as an investment property, therefore this has been corrected by reclassifying as other land and buildings.

Executive Summary

Areas of audit focus (continued)

Area of audit focus / Inherent risk	Findings & Conclusions
Valuation of Land and Buildings	<p>Our work in this area remains in progress as at 28 February 2022. Further details are set out in Section 2 of this report.</p> <ul style="list-style-type: none"> Assets valued using Existing Use Value (EUV) is largely complete with no errors identified, we have one query outstanding on a Daedalus asset. For assets valued on a Depreciated Replacement Cost basis, the final queries are being worked through following receipt from the valuer on 28th February 2022.
Pension Liability Valuation (Inherent risk)	<p>Our planned work in this area is complete. One adjustment of £2.5m to increase the pensions asset has been required as a result of our work. Further details are set out in Section 2 of this report.</p>
NNDR Appeals Provision (inherent risk)	<p>The work on this area is complete with one error identified which reduces the NNDR appeals Provision by £989k. This was due to an incorrect header on the analyse local report which led to a provision incorrectly being made against 21/22 and 22/23 income.</p>
Going Concern (Area of audit focus)	<p>We have reviewed management's assessment and cashflow forecast. We agree that the Council's accounts should be prepared on the going concern basis. We are satisfied that the disclosures relating to going concern are adequate and sufficiently discloses material events and conditions in relation to the going concern assumption of the Council.</p>
Accounting for Covid-19 related government grants (Inherent risk)	<p>Based on our work performed we were not satisfied with the accounting treatment adopted for Covid-19 related government grants as the draft accounts held a number of the principal Covid-19 grants within creditors rather than income and expenditure. Where the Council acts as principal, these grants should be processed through the CIES as the Council has the control over the allocation of the funding to the beneficiaries of these grants.</p> <p>We have agreed the required adjustment with management. Further details are set out in Section 2 of this report.</p>



Executive Summary

Control observations

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

We have not identified any significant control deficiencies as part of the audit process.

Independence

Please refer to Section 08 for our update on Independence. We note that there are no matters to draw to the attention of the Audit Committee.



02 Areas of Audit Focus



Areas of Audit Focus

Fraud risks

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 did we do and what judgements did we focus on?

we:

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

We also performed mandatory procedures which we are required to undertake regardless of specifically identified fraud risks. We:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to the revaluation of PPE and IP assets and pension liability and asset valuation.
- Evaluated the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

Having re-evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We continued to conclude that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' were required. See the next page for further details.

What are our findings & conclusions?

Based on our work completed we have not identified any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Council's normal course of business.



Areas of Audit Focus

Fraud risks (continued)

Inappropriate capitalisation of revenue expenditure

What is the risk and potential impact on the financial statements?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

We determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements.

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 did we do and what judgements did we focus on?

We:

- Tested PPE additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. There were no significant investment property additions in the year.

In testing the capitalised expenditure we focused on the following judgements:

- We sought to gain assurance the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.
- We sought to gain comfort that any development or other related costs that were capitalised were reasonable to capitalise i.e. the costs incurred were directly attributable to bringing the asset into operational use.



Areas of Audit Focus

Fraud risks (continued)

What are our findings & conclusions?

Our sample testing of additions:

- Found costs had been correctly classified as capital and included at the correct value.
- Did not identify any revenue items that were incorrectly classified as capital.

Our review of judgements taken by management found that:

- Where relevant the capitalised spend clearly enhanced or extended the useful life of assets rather than simply repairing or maintaining the assets on which it was incurred.
- Other capitalised costs were directly attributable to bringing assets into operational use.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.



Areas of Audit Focus

Significant risk

Valuations of Investment Property (IP)

What is the risk and potential impact on the financial statements?

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

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 in the valuations at year-end.

Since late March 2020 in the UK, Covid-19 had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation and this continued to be a factor for 2020/21. Although government's measures have gradually relaxed, the long term effects remains uncertain. Rental income may not be at levels pre-pandemic even after market recovery and there could still be increased levels of tenant defaults or negotiations for rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we therefore raised a significant risk in relation to these type of valuations.



Areas of Audit Focus

Significant risk

What did we do and what judgements did we focus on?

- 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 valuer in performing its valuation and challenged the key assumptions used by the valuer and also ensure that all IP has been revalued in-year.
- Tested accounting entries have been correctly processed in the financial statements.
- Ensured that appropriate disclosure had been made in the accounts concerning the possibility of 'material uncertainty'.
- Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets. Sampling focussed on:
 - Assets more susceptible to the market volatility brought about by C-19. We consider this relates to investment property assets as these are carried at fair value
 - Unexpected fluctuations in valuation year-on-year

What are our findings & conclusions?

Fareham has a balance of £61.6m investment properties. We selected £52m (19 assets) to test based on a judgemental sampling approach. We have identified these based on the type of property and our expectation of the movement. We have then reviewed the population to ensure that all asset types have been sample tested. We engaged our specialists to review 8 of these assets. These were picked by reviewing each material asset with a member of our specialist team to understand which items may not have moved in line with our expectations.

All properties reviewed by our specialists fell with our expected range. Our local testing of the remainder of the assets used the assurances from our specialists where appropriate, and our work is complete.

One misstatement has been identified and has been adjusted for which is the misclassification of an item of other land and building as an investment property. This had a value of £1.3m and caused the in year revaluation increase of £1m to be reclassified as OCI.



Areas of Audit Focus

Area of audit focus

Valuation of operational Land and Buildings

What is the risk?

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

What did we do and what judgements did we focus on?

Our work in this complex area is still ongoing. To date we:

- 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 valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used by the valuer.
- Tested accounting entries have been correctly processed in the financial statements.
- 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 2020/21 to confirm that the remaining asset base is not materially misstated.
- Considered changes to useful economic lives as a result of the most recent valuation.

What are our findings & conclusions?

FBC has a other land and building balance of £89m, with £87m revalued in 20/21.

£51m of this is based on an Existing Use Value (EUV) valuation (including Garages held as OLB). We have judgementally selected £39m of this for testing, selecting assets based on size as well as anything that has not moved in line with our expectations. We have then ensured that we have tested at least one of each type of asset. The work on assets valued at EUV is almost complete with one query outstanding.

The work on Depreciated Replacement Cost assets is underway, with a small number of queries outstanding as at the date of this report. £36m relates to DRC valuations and we have selected £26m for testing based on a similar judgemental sample as set out above. Errors were found in community centre revaluations in the prior year and therefore we have selected a higher proportion of these assets for 20/21.

We have performed one final review of all asset types to ensure we are reviewing all assets with a movement above our materiality level. This allows us to reduce the risk of misstatement to a sufficiently low level.



Areas of Audit Focus

Area of audit focus

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 2021 this totalled £71.56m.

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 did we do and what judgements did we focus on?

We:

- 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) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office (NAO) for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our findings & 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. However, as confirmed by the assurances received from the Pension Fund auditor, an adjustment of £2.5m was required as a result of our work to reflect the Council's share of the difference between the estimated value of Pension Fund assets submitted to Aon and the final audited value of Pension Fund assets in its 2020/21 financial statements.
- 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.

Furthermore, the new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, were able to access the detailed models of the actuaries in order to evidence these requirements. We therefore modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. The results of this exercise showed the actuarial estimate to be accurate within a reasonable range.



Areas of Audit Focus

Area of audit focus

NNDR Appeals Provision

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 prior 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;
- 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; and
- Ensured that the Council has considered local appeal rates and outstanding appeals when calculating its provision for business rates appeals rather than using a national figure of 4.7% as this is not necessarily reflective of the appeals locally

What are our conclusions?

We have reviewed the calculation of the provision and confirmed that the calculation initially used the Analyse Local threat report to estimate of outstanding appeals. There was an incorrectly labelled column on this report which included the predicted losses from 21/22 and 22/23. This caused the provisions to be overstated by £2.4m, with Fareham's share amounting to a £989k overstatement.

We reviewed the assumptions, methods and models used by management's specialist. We identified no issues other than the documentation issue noted above.

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



Areas of Audit Focus

Area of audit focus

Going Concern

What is the risk?

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Council to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Council is also required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What did we do and what judgements did we focus on?

We:

- Challenged management's identification of events or conditions impacting going concern.
- Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, in drawing our conclusions on going concern.
- Challenged the disclosure made in the accounts in respect of going concern
- Reviewed the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow.

What are our findings & 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 and proposed relatively minor updates which management made;
- 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 accounts 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

Area of audit focus

Accounting for Covid-19 related government grants

What is the risk?

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

What did we do and what judgements did we focus on?

We considered the Council's judgement on material grants received in relation to whether it is acting as:

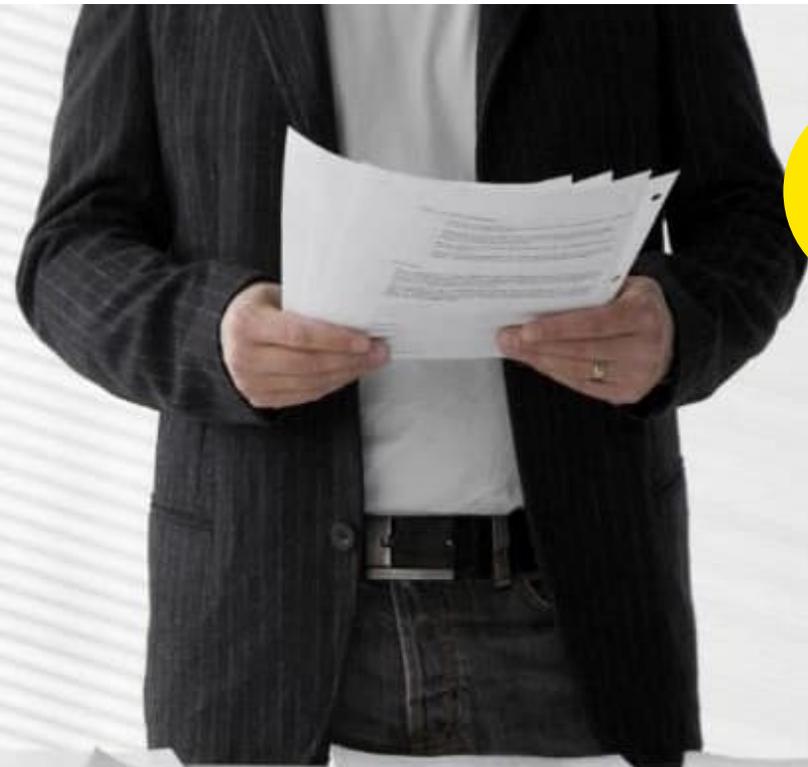
- Agent, where it has determined that it is acting as an intermediary; or
- Principal, where the Council has determined that it is acting on its own behalf.

We sought to determine whether conditions were attached to the grant funding received and whether those conditions were met or not. Considering the outcome of the above we considered the appropriateness of the accounting treatment for the grants, in particular whether the grants were correctly classified, and whether associated disclosure were also accurate.

What are our findings & conclusions?

For those grants received where the Council is acting as an agent we would not expect these to be processed through the income and expenditure accounts but would expect to see the amounts received disclosed in the notes to the accounts. Where the Council acts as principal, these grants should be processed through the CIES as the Council has the control over the allocation of the funding to the beneficiaries of these grants.

Based on the work performed we were not satisfied with the accounting treatment adopted for Covid-19 related government grants as the draft accounts held a number of the principal Covid-19 grants within creditors rather than income and expenditure. We have now agreed the final figures to be posted into the accounts (£2.8m to be adjusted within income and expenditure and associated classification of £1.9m between creditors and Receipts in advance.)



03 Audit Report



Audit Report

Draft audit report

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

Our opinion on the financial statements

Opinion

We have audited the financial statements of Fareham Borough Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement and the related notes 1 to 34, the Housing Revenue Account Income and Expenditure Statement, the movement on the Housing Revenue Account Statement, the notes to the Housing Revenue Account, and the 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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2021 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 2020/21.

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 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

In auditing the financial statements, we have concluded that the Deputy Chief Executive officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Deputy Chief Executive officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive officer is responsible for the other information contained within the Statement of Accounts 2020/21.

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.

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 course of 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



Audit Report

Draft audit report

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

Our opinion on the financial statements

a material misstatement in the financial statements themselves. 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.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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 29, the Deputy Chief Executive officer is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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.



Audit Report

Draft audit report

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

Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant are:

- the Local Government Act 1972;
- the Local Government Act 2003;
- the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020;
- the National Health Service Act 2006;
- the Local Audit and Accountability Act 2014; and
- the Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how Fareham Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified the inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; assessed accounting estimates for evidence of management bias; and evaluated the business rationale for significant unusual transactions.

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.



Audit Report

Draft audit report

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

Our opinion on the financial statements

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 reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether Fareham Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Fareham Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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, Fareham Borough 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.

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 cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts 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 Authority and the Authority'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 and uncorrected differences

There are no unadjusted differences as at 28 February 2022.

Other than minor misstatements in disclosures, we have identified the following misstatements as at 28 February which management have agreed to correct:

- Payables – £959k held as a creditor has been reclassified to cash as it was incorrectly moved to a cash control account due to timing differences.
- PPE – £1.3m reclassified from investment property to other land and building as per Section 2, this has also caused the reclassification of the revaluation increase impact of £1m from deficit on provision of services to OCI.
- IAS 19 – £2.5m adjustment to increase the asset value as per section 2.
- Covid 19 – £2.8m Principal grants moved from creditors to income and expenditure, £1.9m reclassified from creditors to receipts in advance, see section 2 for further detail.
- NNDR Appeals - £989k adjustment to reduce Fareham’s share of the NNDR Appeals provision



05 Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA Code of Practice on Local Authority Accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

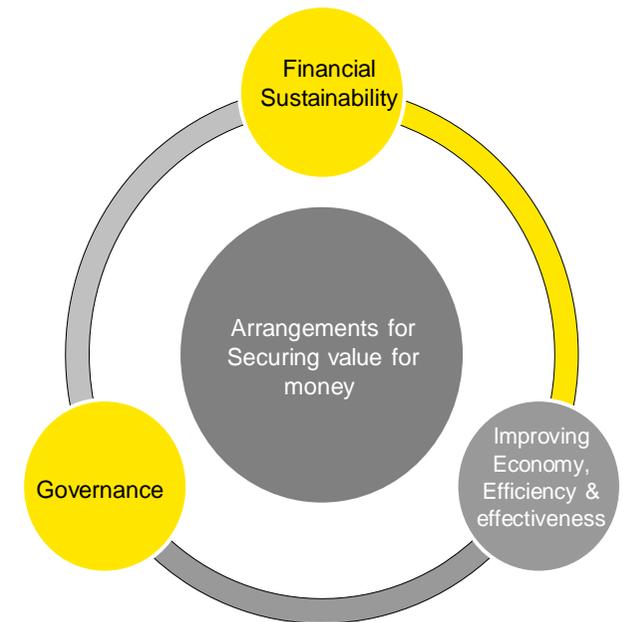
Risk assessment

We have previously reported to the Committee the outcome of our preliminary assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had not identified any risks. We have revisited our risk assessment and have not identified any additional risks.

Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report.





06 Other reporting issues

Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 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 (NAO) on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the NAO.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (OSCAR) and update the guidance that is available for preparers. We do not anticipate having any issues to report as the Authority is expected to be below the threshold set by the NAO for full procedures.

Other reporting issues

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.

No objections were received during the public inspection period.

Other matters

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

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

We have no other matters to report.



07

Assessment of Control Environment

Assessment of Control Environment

Financial Controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as 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.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.



08

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members 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 2020 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 table below sets out a summary of the fees that are relevant to the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final fee 2020/21	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
Scale Fee - Code work	£37,137	£37,137	£37,137
Value for money work - minimum additional fee expectation by PSAA for 2020/21 due to the new Code requirements.	£6,000	-	-
Impact of new accounting requirements of ISA 540 - minimum additional fee expectation by PSAA for 2020/21	£2,500	-	-
Scale fee rebasing (see Note 1)	£19,921	£19,921	£19,944
Risk based fee variations (see Note 1)	TBC	£10,382	
Total Fees	TBC	£67,440	£57,081

Note 1

- In 2019/20, and within our audit plan, we included a requested amendment to the scale fee in order to meet regulatory and compliance requirements. For 2019/20 we also submitted risk based fee variations to PSAA. PSAA have determined the submission for 2019/20, but did not provide confirmation whether the determination or any element was recurrent. Therefore, we have presented the determined variation as a single line of £19,944.

- For the purposes of this document we have continued to include our fee rebasing from the 'Planned Fee 2020/21'. We have also included variations for new Code and ISA requirements, based on the lower end of PSAA's communicated expected ranges. Following the conclusion of the audit we will be in a position to conclude on the risk based variations for the year, including the process to submit to PSAA. We will update management and the committee when we have clarity on the way forward and timescales for both elements.

Other communications

EY Transparency Report 2021

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 2021:

[EY UK 2021 Transparency Report | EY UK](#)



09 Appendices

Appendix A

Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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.	Audit planning report – dated June 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report – dated June 2021
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report – dated February 2022

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"> • Whether the events or conditions constitute a material uncertainty related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Fareham Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report – dated February 2022
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit and Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report – dated February 2022
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Governance Committee responsibility. 	Audit results report – dated February 2022

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	<p>Audit results report – dated February 2022</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan – dated June 2021 and Audit results report – dated February 2022</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	<p>We have received all expected confirmations.</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of 	<p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	<p>Audit results report – dated February 2022</p>

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report – dated February 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report – dated February 2022
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor’s report Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report – dated February 2022
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Plan – dated June 2021 and Audit results report – dated February 2022

Draft management representation letter

Management Rep Letter

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 2021. 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 2021 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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 2020/21.
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 (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, 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 2020/21, 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. As at the date of our report, there are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - 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;

Draft management representation letter

Management Rep Letter

- 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 held through 2020/21 to the most recent meeting of the Audit and Governance Committee held on.....*[to be completed]*.

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

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

6. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

7. 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.

8. From the date of our last management representation letter at 20 November 2020 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.

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 49 to the financial statements all guarantees that we have given to third parties.

Draft management representation letter

Management Rep Letter

E. Going Concern

1. Note 1 to the financial statements disclose all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than as described in 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.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings classified as property, plant & equipment, investment property and valuation of pension liabilities and assets, 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.

I. Estimates

Revaluation of land and buildings classified as Property, Plant and Equipment (PPE) and Investment Property (IP)

1. We confirm that the significant judgments made in performing the revaluation of land and buildings classified as PPE and IP have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in performing the revaluation of land and buildings classified as PPE and IP.

3. We confirm that the significant assumptions used in performing the revaluation of land and buildings classified as PPE and IP appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

5. We confirm that appropriate specialized skills or expertise has been applied in undertaking the revaluation of land and buildings classified as PPE and IP.

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

Pension Liability and Asset Valuation

7. We confirm that the significant judgments made in performing the pension liability and asset valuation have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.

8. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in performing the pension liability and asset valuation.

Appendix B

Draft management representation letter

Management Rep Letter

9. We confirm that the significant assumptions used in performing the pension liability and asset valuation appropriately reflect our intent and ability to carry out the revaluation on behalf of the entity.

10. We confirm that the disclosures made in the financial statements with respect to the accounting estimate, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

11. We confirm that appropriate specialized skills or expertise has been applied in undertaking the pension liability and asset valuation.

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

Retirement benefits

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

Yours faithfully,

Andrew Wannell, Deputy Chief Executive officer

Councillor Tom Davies, Chairman of the Audit and Governance Committee

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