

Fareham Borough
Council
Audit results report
Year ended 31 March 2022

February 2023



EY

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working world



28 February 2023

Dear Audit and Governance Committee Members

2021/22 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 13 March 2023 on further progress to that date and explain the remaining steps, and timeline, to issue our final opinion.

The audit is designed to express an opinion on the 2021/22 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 13 March 2023.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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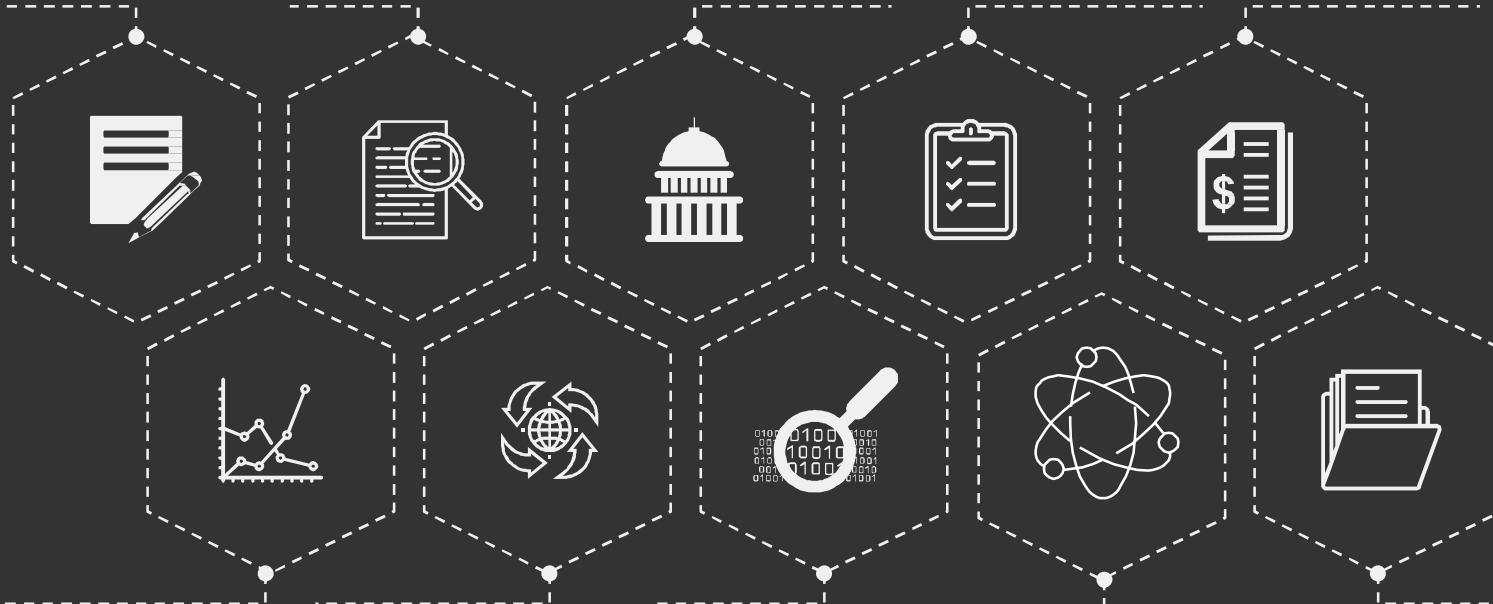
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities 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 July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 26 September 2022, 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 amendments:

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	£1.348 million	£1.011m	£0.067m
Final	£1.390 million	£1.043m	£0.07m

Investment property valuations – increased risk to significant

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. However, some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. In light of this, in our outline Audit Planning Report issued in June 2022, we reduced the risk on investment property valuations from significant to higher inherent risk.

Upon receipt of the valuation reports from the external valuers we revisited our risk assessment and whilst the investment property portfolio has remained unchanged, there was a £8m (c.13%) increase in valuation, coupled with a change in external valuer who would not necessarily be familiar with the Council's portfolio and may have taken a different valuation approach or made different critical assumptions. We therefore raised a significant risk in relation to investment property valuations.

New finance system – increased risk to significant

Through our discussion with management and also through our walkthroughs performed, we understand that apart from the change in Trial Balance (TB) codes, the majority of the functions in the Council's new finance system are more advanced and effective. We also understand that all of the transactions from 1 April 2021 to 20 March 2022 was recorded in the old system. On 21 March 2022 when the new system was fully implemented, all transactions from the old system was transferred to the new system and the production of TB is via the new system. Therefore, there is a risk that the migration does not include all transactions and/or that the transactions are migrated at the incorrect amount or to the incorrect part of the accounts

Executive Summary

Scope update (continued)

Accounting for infrastructure assets – no longer an area of focus

The gross cost of infrastructure non-current assets are material in the financial statements. Once an item of property, plant and equipment has been recognised and capitalized, an authority may incur further costs on that asset at a later date. The accounting treatment requires such subsequent expenditure to be capitalized to the value of the asset where these costs meet the recognition criteria. Where the subsequent expenditure represents the replacement of a component, the Code requires the old component to be written out of the Balance Sheet. There is a need for the Council to ensure that it has recognised and accounted for such subsequent expenditure appropriately.

Through the inspection of the 2021/22 draft accounts and our updated risk assessment, we have removed this risk from our audit plan as there is no capital spending in infrastructure in 2021/22. We have reviewed the historic spend by reviewing of the Council's accounts post 2010 (when IFRS was applied) from the audited accounts published on the Council's website. This shows that the gross spend since the adoption of IFRS is not material, and therefore, the Council cannot have a material issue with expenditure potentially replacing previous assets/components, and not derecognising the previous component.

Covid-19 grants – re-instated as an area of focus

Whilst still significant, 2021/22 saw a reduction in the level of government funding in relation to Covid-19. Furthermore, 2021/22 was the second year of this significant funding stream for the Council and the expectation was that management would be more familiar with the accounting for these type of grants in the current year. In light of this, in our outline Audit Planning Report issued in June 2022, we removed the accounting for Covid-19 grants as a risk.

Through our review of the 2021/22 draft accounts, we were not able to reconcile management's working papers to the grant income note in relation to Covid-19 grants which was due to a miscommunication regarding the information required and we re-instated Covid-19 grants as an area of focus.

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 2022 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:

- Valuations testing – our work on assets valued using Depreciated Replacement Cost (DRC) is complete. Our work on assets valued using Existing Use Value (EUV) and investment properties is currently underway with outstanding queries with the Council for a number of properties.
- Review of creditors and payroll testing performed
- Completing our testing in the areas of Grants RIA. Grant income including covid-19 grants, expenditure, journal entries and related party transactions
- Resolving a number of queries on income testing performed, HRA disclosures and information relating to the change in accounting system
- 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 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).

Our work on the Value for Money commentary to be included in the Auditors Annual Report has been significantly completed. We can confirm at this stage we have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

Recognising the pressures in the local audit system, the NAO's guidance for 2021/22 allows the Auditors Annual Report to be issued 3 months after giving the opinion on the financial statements

Audit differences

Details on audit differences can be found in Section 4 Audit Differences

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 for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based.

We have no other matters to report.

Objections

We have not received any objections to the 2021/22 accounts from members of the public.

Executive Summary

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	Our work in this area remains in progress. To date 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	Our sample testing of additions to Property Plant and Equipment (PPE): <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. Our review of judgements taken by management found them to be reasonable.
Significant Risk	Findings & Conclusions
Valuation of Investment Properties	Our work in this area is remains in progress. We currently have queries on 8 remaining properties for which we are awaiting a response from the internal valuer.
New finance system	Our work in this area is remains in progress. We are awaiting information relating to the change in accounting system from the finance team in order for us to progress our work.



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 2023. Further details are set out in Section 2 of this report.</p> <ul style="list-style-type: none">• Assets valued using DRC is complete with one error identified in relation to Westbury Manor land valuation.• For assets valued on a EUV basis, testing is currently underway.
Pension Liability Valuation (Inherent risk)	<p>Our planned work in this area is complete. One adjustment of £74k to decrease the pensions asset has been communicated 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 overstated the NNDR appeals Provision by £395k. This was due to an error on the Council's working paper which produced the NNDR 3.</p>
Accounting for Covid-19 related government grants (Inherent risk)	<p>Our work in this area remains in progress. The Council's initial working paper for Covid-19 grants did not agree to the draft accounts. Testing commenced once we were provided with a reconciliation and updated working paper, and is in progress. 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.

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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.

Independence

Please refer to Section 08 for our update on Independence.



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 judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified Significant risk - Inappropriate capitalisation of revenue expenditure

What did we do?

We carried out the following procedures:

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks
- Understood 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.
- 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.

What are our findings & conclusions?

Based on our work completed to date 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?

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

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

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

What did we do?

Our approach focused on the following:

- ▶ We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.
- ▶ We reviewed REFCUS spend but this was immaterial (£793k) for 2021/22 and therefore did not provide the incentive or opportunity to materially capitalise revenue expenditure inappropriately.

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

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. However, some property markets have started to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.

Whilst the IP portfolio has remained unchanged, there has been a £8m (c.13%) increase in valuation, coupled with a change in external valuer who would not necessarily be familiar with the Council's portfolio and may have taken a different valuation approach or made different critical assumptions.

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.
- 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 unexpected fluctuations in valuation year-on-year and assets more susceptible to market volatility



Areas of Audit Focus

Significant risk

What are our findings & conclusions?

Fareham has a balance of £68m investment properties. We selected £58m (20 assets) to test based on a judgemental sampling approach. We have identified these based on the type of property and our review of the movements. We have then reviewed the population to ensure that all types of the investment properties have been sample tested. We engaged our specialists to review 6 of these assets.

Six properties reviewed by our specialists fell within our expected range but is still subject to Partner review and there is a response to our queries outstanding with the Council's internal valuer for the remaining asset. Partner review will commence once all valuation queries have been responded to.

Our local testing of 7 of the remainder of the assets is complete with no material differences identified in valuation based on the inputs we were able to verify. However, queries remain on the lease income figure and the site area for these assets.

Of the other remaining assets tested by the audit team, for 7 assets we are awaiting responses to our valuation queries from the Council's internal valuer.



Areas of Audit Focus

Significant risk

New Finance System

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

The Council has implemented a new finance system from 1 April 2022 which was used to prepare the 2021/22 financial statements.

We understand that apart from the change in Trial Balance (TB) codes, the majority of the functions in the Council's new finance system are more advanced and effective. We also understand that all of the transactions from 1 April 2021 to 20 March 2022 was recorded in the old system. On 21 March 2022 when the new system was fully implemented, all transactions from the old system was transferred to the new system and the production of TB is via the new system. Therefore, there is a risk that the migration does not include all transactions and/or that the transactions are migrated at the incorrect amount or to the incorrect part of the accounts

What did we do?

We

- Met with officers to discuss and understand the process for implementing the new accounting system i.e. a walkthrough.
- Reviewed the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This includes reviewing the effectiveness of reconciliation processes. We undertook our own testing on the completeness and accuracy of data migration.
- Enquired regarding internal audit involvement in the data migration to determine the work they performed.
- Reviewed how data from the new system maps to the statement of accounts, as part of our understanding of the accounts production process for 2021/22.

What are our conclusions?

We are still awaiting the Council's data migration information (pre and post migration reconciliation and process notes) in order to complete our procedures and to conclude on this area of work.



Areas of Audit Focus

Area of audit focus

Valuation of operational Land and Buildings

What is the risk?

The 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.
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated.
- Commissioned EYRE, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of EUV assets. Sampling focussed on unexpected fluctuations in valuation year-on-year.



Areas of Audit Focus

Area of audit focus

What are our findings & conclusions?

FBC has an other land and buildings balance of £110.5m, with £99.9m revalued in 21/22.

£56m of this is based on an EUV valuation. We have judgementally selected £45m 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. We referred Daedalus and Faraday Business Park, with a total valuation of £32.4m, to our specialists EYRE for review and this value fell within our expected range but this conclusion is still subject to Partner review which can only commence once all our queries have been responded to. Local testing of the remaining assets are underway.

The work on DRC assets is complete, with one misstatement identified in relation to the land value for Westbury Manor. The valuer used £1.2m per acre to determine the land value but the appropriate value per acre was £500k based on comparable land in the same location, resulting in an overstatement of £365k.



Areas of Audit Focus

Area of audit focus

Pension Liability Valuation

What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

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.
- In accordance with the ISA540 (revised) standard, we tested the actuarial model to confirm it is appropriately designed, consistently applied and mathematically accurate. We involved our EY Pensions specialists to perform this work

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. We have identified a non-material difference on the gross pension asset, arising from differences between the actuaries values and amount estimated from the Council's share of the final audited pension fund assets. The difference is £74k.
- We have concluded that we could rely on the work of the Pension Fund actuary, and assess their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.
- We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions.
- We have confirmed the values and entries from the actuarial report have been correctly reflected in the Council's financial statements.
- The results of the EY pensions specialist has confirmed the actuarial estimate of the gross pension liability 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.



Areas of Audit Focus

Area of audit focus

What are our conclusions?

We have reviewed the calculation of the provision and identified a difference of £395k between the Council's working paper and the draft accounts. It was noted that there was an error on the working paper which produced the NNDR 3 which was then used to process the journals in the draft accounts, leading to the difference identified. This is the fourth consecutive year we identified misstatements within management's NDR Appeals provision calculation.

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

We confirmed that the Council amended the provision for any business rates reliefs awarded.

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



Areas of Audit Focus

Area of audit focus

Accounting for Covid-19 related government grants

What is the risk?

Whilst still significant, 2021/22 saw a reduction in the level of government funding in relation to Covid-19. Furthermore, 2021/22 was the second year of this significant funding stream for the Council and the expectation was that management would be more familiar with the accounting for these type of grants in the current year.

Through our review of the 2021/22 draft accounts, we were not able to reconcile management's working papers to the grant income note in relation to Covid-19 grants which was due to a miscommunication regarding the information required and we re-instated Covid-19 grants as an area of focus.

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.

Our work in this area is underway. We will provide the Audit Committee with a verbal update at the 13 March meeting.



03 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 2022 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 2021/22.

In our opinion the financial statements:

- give a true and fair view of the financial position of Fareham Borough Council as at 31 March 2022 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 2021/22.

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 Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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 2021/22, 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 2021/22.

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 Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- 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 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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 xx, 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 2021/22, 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 Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities 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

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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 Council and determined that the most significant are:

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020 and 2022,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948) ,
- The Local Audit and Accountability Act 2014 (as amended),
- The Accounts and Audit Regulations 2015,

In addition, the Council 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 Council'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 Council'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, inappropriate capitalisation of revenue expenditure and management override of controls and to be our fraud risks.

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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 2020, having regard to the guidance on the specified reporting criterion issued by the Comptroller and Auditor General in December 2021, as to whether the Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

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 (as amended) 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 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences





Audit Differences

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

Summary of adjusted and uncorrected differences

We highlight the following misstatements greater than £1.39m which have been corrected by management that were identified during the course of our audit. To date there are no such items to report.

We report to you any uncorrected misstatements greater than our nominal value of £70k.

There are five misstatements to bring to your attention at the time of writing this report, based on the preliminary findings of our local audit team and the Pension Fund auditors

- Overstatement of the NNDR Appeals Provision of which Fareham's share is £395k
- Understatement of NNDR Arrear Debtors of £136k
- Overstatement of Westbury Manor Land valuation of £365k
- Decrease to pensions asset (£74k)
- Understatement of creditors (£959k)

Depending on the findings from the outstanding areas of audit testing, there is a risk that the cumulative impact of errors may become material and require adjusting.

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



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.

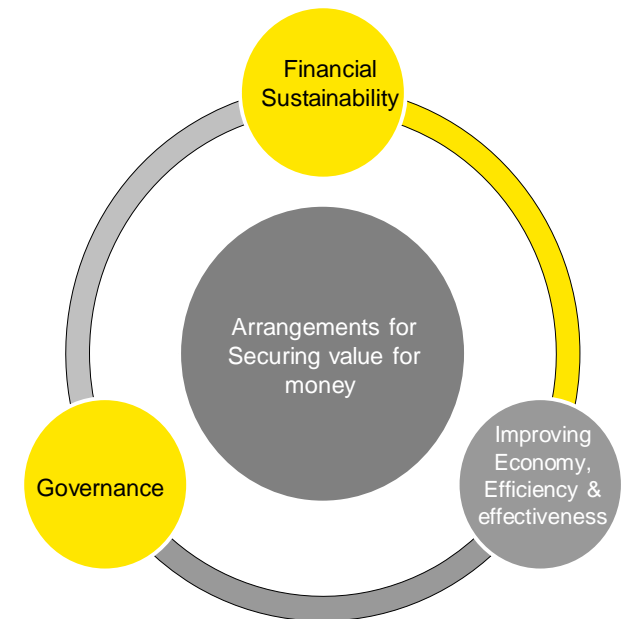
Risk assessment

We have previously reported to the Council in our Audit Plan that our assessment of the risk of significant weaknesses in the Council's VFM arrangements remained ongoing. At this stage of completion of our procedures, we have not identified any risks of significant weaknesses in the Council's arrangements.

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

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 Financial Report 2021/22 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 Narrative Statement and published with the financial statements was consistent with the audited financial statements

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

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission for 2021/22. However, we do not expect any issues in performing this work as the Council falls below the threshold set within the guidance from HM Treasury and the group audit instructions for 2021/22 on which our work is based. The audit certificate will be issued once this work is complete.

Other powers and duties

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

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

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 Fareham Borough Council's financial reporting process. 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 Data Analytics

Data analytics – Journal Entries

Analytics Driven Audit

Data Analytics

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

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

In 2021/22, our use of these analysers in the Council's audit included gaining a deeper understanding of the data sources which are used in each Significant Class of Transactions and therefore allowing us to tailor our testing accordingly dependant on the nature of the source entries. We tested specific journal entries which we deem to have the highest inherent risk to the audit, including unusual transactions not consistent with the rest of the population.

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

Journal Entry Analysis

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



09

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, 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 2021 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 next page sets out a summary of the fees that are relevant to the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, we have provided services as a reporting accountant for the Department of Work and Pensions Housing Benefit Assurance Process (HBAP) in respect of the subsidy claim to 31 March 2022.

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit & Governance Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Council.

As part of our reporting on our independence, to the right we set out a summary of the fees you have paid us in the year ended 31 March 2022.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee	37,137	37,137	37,137
Scale Fee Rebasing (1)	24,902	24,902	8,367
Revised Proposed Scale Fee	62,039	62,039	45,504
Scale Fee Variation (2)	TBC	18,000	25,182
Total Audit Fee	TBC	80,039	70,686
Non Audit Fees – HBAP (3)	TBC	14,000	N/A

(1) As detailed in our 2020/21 Auditor's Annual Report we submitted a proposed rebasing of the scale fee for £24,902. PSAA have approved the 20/21 Scale Fee Variation (including rebasing element) as shown. We continue to record the same rebasing figure for 21/22 as we submitted for 20/21.

(2) For 2021/22, the scale fee will be impacted by a range of factors which has resulted in additional work. The issues we have identified which will impact on the fee include:

- The need to engage EY Pensions to review assumptions used in the Pensions IAS19 liability. Estimated value £1,000.
- Work to review the impact of the new finance system implementation. Estimated value £2,000
- Additional work required for PPE and IP valuations, including the involvement of EYRE
- Additional fee for changes in audit requirements: VFM and ISA 540 (estimates)
- Errors and amendments identified in section 4 above and any further errors identified during our completion of the outstanding areas highlighted in section 1.

(3) Our final fee will be driven by the level of errors identified and subsequent additional work requirements to drilldown into these errors. We are currently in the early stages of working on the 21/22 HBAP engagement. We were not the reporting accountant in 20/21.

Other communications

EY Transparency Report 2022

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 2022:

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







10 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 & 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 – June 2022
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 – June 2022
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 – February 2023

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 – February 2023
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit & Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report – February 2023
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit 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 & Governance Committee responsibility. 	Audit Results Report – February 2023

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 	Audit Results Report – February 2023
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 	Audit Results Report – February 2023
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
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 & Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	We have not identified any significant deficiencies in internal controls

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 – February 2023
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 – February 2023
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 – February 2023 No such circumstances identified

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 2022. 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 financial position of Fareham Borough Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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 2021/22.
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 2021/22. 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 2021/22, 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 and of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

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

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
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;

Draft management representation letter

Management Rep Letter

- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Council and committees held through 2021/22 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 year 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 2021/22.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter at 14 March 2022 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, and ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

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.

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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.

E. Going Concern

1. Note 1 to the financial statements discloses 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, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, 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 Narrative Report and the Annual Governance Statement.

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

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

I. Reserves

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

J. Use of the Work of a Specialist

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.

K. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities and the valuations of property, plant and equipment and investment properties have taken into account all relevant information 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 estimates, 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 2021/22.

5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.

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

Appendix B

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L. 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 Frair Burgess, Chairman of the Audit and Governance Committee

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