

# Fareham Borough Council

## Audit Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

23 September 2013

||| Kate Handy, Director  
||| [khandy@uk.ey.com](mailto:khandy@uk.ey.com)

||| Catherine Morganti, Manager  
||| [cmorganti@uk.ey.com](mailto:cmorganti@uk.ey.com)



Building a better  
working world

# Contents

- ▶ Executive Summary
- ▶ Extent and purpose of our work
- ▶ Addressing audit risk
- ▶ Financial statements audit – issues & findings
- ▶ Arrangements to secure economy, efficiency and effectiveness
- ▶ Independence and Audit Fees

# Executive Summary

## Key findings

---

### Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to 'those charged with governance' on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2012/13 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial Statements**

- ▶ As of 23 September 2013, we expect to issue an unqualified opinion. Our audit demonstrates that the Council has prepared its financial statements well and this is reflected in the low number of issues to bring to your attention.

#### **Value for Money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

#### **Whole of Government Accounts**

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

#### **Audit Certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the Audit Opinion.

# Extent and purpose of our work

## The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

Our audit was designed to:

- ▶ Express an opinion on the 2012/13 financial statements Report on any exception on the governance statement or other information included in the foreword
- ▶ As a component auditor, follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule
- ▶ Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than this specified party.

# Addressing audit risks

## Significant Audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Significant audit risks		
None		
Other audit risks Fareham Borough Council is a constituent council of the Joint Committee for Portsmouth Crematorium. We are clarifying with you the ownership of the assets.	<ul style="list-style-type: none"> <li>We have reviewed how you have disclosed your interest in the crematorium.</li> </ul>	<p>We confirm we are content that you have disclosed your interest in the crematorium appropriately. We note however that the Memorandum of agreement between the 4 constituent councils requires reviewing to ensure that it reflects your interest correctly.</p>
Risk of misstatement due to fraud and error This risk is generic to all financial statements audits and is brought to your attention as those charged with governance.	<p>Based on the requirements of auditing standards our approach has focussed on:</p> <ul style="list-style-type: none"> <li>Identifying fraud risks during the planning stages.</li> <li>Inquiry of management about risks of fraud and the controls put in place to address those risks.</li> <li>Understanding the oversight given by those charged with governance of management's processes over fraud.</li> <li>Consideration of the effectiveness of management's controls designed to address the risk of fraud.</li> <li>Determining an appropriate strategy to address those identified risks of fraud.</li> <li>Performing mandatory procedures regardless of specifically identified fraud risks.</li> </ul> <p>We also considered the results of the National Fraud Initiative.</p>	<p>No issues have been identified from our work performed. We have completed the Audit Commissions National Fraud Initiative survey which required an assessment of how much work had been performed on the NFI data. The Council were rated a green risk due to the good progress that had been made at the time of the survey.</p>

# Financial Statements audit

## Issues and errors arising from the audit

### Progress of our audit

The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit and Governance Committee meeting:

- ▶ Receipt of a Letter of Representation
- ▶ Review of the pension fund assurances from the pension fund auditor
- ▶ Review of the work

Subject to receipt of your Letter of Representation we propose to issue an unqualified audit report on the financial statements.

### Uncorrected Errors

We have not identified any errors within the draft financial statements, which management have not adjusted.

### Corrected Errors

Our audit identified a number of disclosure errors. This included a prior period adjustment you made in respect of an 2011/12 comparative note for non current assets which had not been disclosed in accordance with accounting standards (IAS8). We have highlighted these errors to management for amendment. All errors have been adjusted during the course of our work. We do not consider any of these to be significant and therefore we have not provided further details of these amendments. However we recommend that these are reviewed as part of the Council's closedown next year.

### Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- ▶ Other audit matters of governance interest.

There are no other issues to currently raise.

# Findings and issues

## Internal Control, Written Representations & Whole of Government Accounts

### Internal Control

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. My 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.

We have tested the controls of the Council only to the extent necessary to complete the audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ it is consistent with other information that we are aware of from our audit of the financial statements.

### Request for written representations

We have requested that you confirm a number of matters, for which we do not currently have sufficient audit evidence.

### 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 my report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Audit and Governance Committee.

# Arrangements to secure economy, efficiency and effectiveness

*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Fareham Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 - Arrangements for securing financial resilience

- ▶ *"Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future."*
- ▶ We reviewed the Council's medium term financial strategy and the actions you are taking to manage the impact of reduced central government funding and pressures on income streams. Although the Council's current financial position is healthy, managing this position will continue to be challenging.
- ▶ The Council is a key facilitator in the delivery of several major developments in priorities such as Welborne - the New Community North of Fareham and the development of the Daedalus site. Recognising that these projects are at an early stage and their impact on the Council's Medium Term Financial Strategy for 2012/13 is limited, we have no issues to report in relation to this criteria.

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *"Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity."*
- ▶ The Council continues to focus its priorities on achieving high customer satisfaction and maintaining low Council Tax as key outcomes. To inform this it is undertaking a second review of its Corporate strategy and its biennial residents survey. It measures its performance through local service agreements. The latest report on these show performance for 2012/13 is comparable with previous years.
- ▶ Risk management arrangements have been overhauled during the year - a new policy was adopted, a new corporate risk register has been developed and risk assessments completed, including Daedalus and Welborne. Monitoring arrangements have been revamped and updates are reported to Members and senior officers.
- ▶ We have no issues to report in relation to this criteria.



# Independence & Audit Fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 27 June 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ 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 consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Governance Committee on 23 September 2013.
- ▶ We confirm that we have met the reporting requirements to the Audit and Governance Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 27 June 2013.

## Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	
Total Audit Fee - Code work	63,407	63,407	-
Certification of claims and returns	17,900	17,900	-
Non-Audit work	0	n/a	-

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC320001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – if at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

