

# Fareham Borough Council

## Audit and Governance Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

22 September 2014



Building a better  
working world

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

■ Martin Young, Assistant Manager  
■ [myoung1@uk.ey.com](mailto:myoung1@uk.ey.com)

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# Executive summary

## *Key findings*

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### **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 - the Audit and Governance Committee - 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 2013/14 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 22 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements adequately.

#### **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 Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

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# Extent and purpose of our work

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## 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 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- 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)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also 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.

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 the specified party.

# Addressing financial statement 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 (including fraud risks)		
<p><b>1. Provision for NDR Appeals</b> There have been significant changes in the arrangement for business rates since April 2013. One of the main accounting changes is that individual Council's need to provide for ratings appeals. This includes not only appeals from 1 April 2013 but also claims that relate to earlier periods.</p>	<ul style="list-style-type: none"> <li>We assessed your process for determining whether a provision is needed for appeals, the level of estimation uncertainty and whether the estimate gave rise to a significant audit risk.</li> </ul>	<ul style="list-style-type: none"> <li>We completed our assessment of this risk and the level of estimation uncertainty. We determined that it gave rise to a significant risk.</li> <li>The Council used an external expert to assist them in the preparation of the provision for NDR appeals. We evaluated the competence and capability of this expert. We then evaluated their work, considered the methodology adopted and assumptions made and reviewed the source data used.</li> <li>We benchmarked the value of the Council's appeals provision. The value was slightly higher than the average in the comparator group but within the range of reasonable results.</li> <li>We identified no indication of management bias in preparing this estimate.</li> <li>Our overall judgement is that the Council took a reasonable approach to preparing this provision.</li> </ul>
<p><b>2. Risk of management override.</b> As identified in ISA (UK &amp; Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>Reviewed accounting estimates for evidence of management bias; and</li> <li>Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<ul style="list-style-type: none"> <li>Our planned audit work is complete and there no matter we need to report to you.</li> </ul>

# Addressing financial statement audit risks

## Other 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
Other audit risks		
<p><b>1. Daedalus</b> This £8.3m project entails improvements to the runway, provision of new hangar space and an Innovation Centre for small businesses. A land lease was granted to the Council for the plot on which the Innovation Centre is being constructed.</p>	<ul style="list-style-type: none"> <li>• We reviewed the accounting treatment for the development so far as it was complete in 2013/14. This included:               <ul style="list-style-type: none"> <li>• the classification of the land lease,</li> <li>• the funding (by HCA grant)</li> <li>• the classification of the capital project as property, plant or equipment, or as investment property.</li> </ul> </li> <li>• No capital expenditure was incurred on the runway in 2013/14.</li> <li>• No loans have been entered into by the Council for this project in 2013/14.</li> </ul>	<ul style="list-style-type: none"> <li>• Our planned audit work is complete and there no matters we need to report to you.</li> </ul>
<p><b>2. Purchase of commercial properties</b> Under its Commercial Property Investment Acquisition Strategy the Council acquired three commercial properties in 2013/14.</p>	<ul style="list-style-type: none"> <li>• We reviewed the accounting treatment of acquisitions including:               <ul style="list-style-type: none"> <li>• the classification of leases, and</li> <li>• the classification of the properties as property, plant or equipment, or as investment property.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Our planned audit work is complete and there are no matters we need to bring to your attention.</li> </ul>

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# Financial statements audit

## *Issues and misstatements arising from the audit*

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### **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
  - ▶ Housing Benefit grant certification testing
  - ▶ Lease disclosures
  - ▶ Discrete areas of fixed assets
  - ▶ Interest payable
  - ▶ Whole of Government Accounts
  - ▶ Final audit closing procedures and review
  
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### **Uncorrected Misstatements**

- We have identified no misstatements within the draft financial statements, which management has chosen not to adjust.

### **Corrected Misstatements**

- Our audit identified a number of misstatements which our team have highlighted to management for amendment. All of these have been corrected 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 corrected misstatements.

### **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; estimates and disclosures;
  - 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; and,
  - Any significant difficulties encountered during the audit; and
  - Other audit matters of governance interest,

We have no matters we wish to report.

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# Financial statements audit (continued)

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

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### **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. 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.

We have tested the controls of the Council only to the extent necessary for us to complete our 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.

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.

### **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

### **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 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 Committee.



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# Arrangements to secure economy, efficiency and effectiveness

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*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.*

## **Criterion 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”*

## **Criterion 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.”*

## **Key findings**

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

▶ We have no other issues to report.

# Arrangements to secure economy, efficiency and effectiveness

## Addressing 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 these areas.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks		
<p><b>Financial Standing</b></p> <p>The Council continues to experience challenges from reduced government funding</p>	<ul style="list-style-type: none"> <li>We reviewed the Council's medium term financial strategy and the 2014/15 budget and evaluated the reasonableness of key assumptions.</li> <li>We assessed the Council's arrangements for ensuring financial resilience in the medium to long term.</li> <li>We reviewed the Council's efficiency plan.</li> </ul>	<ul style="list-style-type: none"> <li>We have reviewed the Council's Financial Strategy 2013/14 to 2017/18 updated in October 2013 and reports to the Executive underpinning the 2014/15 budget. We have concluded that arrangements to achieve financial resilience and preparations to manage the impact of further pressures from reduced funding and income streams are sound.</li> <li>The Council has established a savings target of £1.4m for the period 2014/15 to 2016/17. It has already implemented over £0.8m. Further identified savings of over £0.5m are in progress and work is ongoing to identify the remainder of the target. Alongside this the Council is undertaking a fundamental review of operations to streamline procedures and provide a better customer service style.</li> </ul>
<p><b>Developments and changes in approach</b></p> <p>In line with its corporate priorities, the Council is a key facilitator in several projects such as Welborne - the New Community North of Fareham (NCNF) and the development of the Daedalus site. The Council is to set up a Joint Venture Company to help meet housing needs. The Council is purchasing commercial properties to achieve a higher rate of investment return.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>Reviewing the Council's arrangements for managing its risks.</li> <li>Assessing the financial implications of the developments for the Council, particularly for financial resilience.</li> <li>Assessing how the Council has ensured the legality of developments.</li> <li>Assessing how the Council has considered the security, liquidity and yield of investments.</li> </ul>	<p>We have focused our review on specific projects that the Council is undertaking. These include: Welbourne, Daedalus, the acquisition of commercial property and the Housing Company. For each project we have:</p> <ul style="list-style-type: none"> <li>Ensured the projects have clear links to corporate priorities;</li> <li>Assessed the project specific governance frameworks and how they link to the Council's overall risk management framework;</li> <li>Reviewed the financial implications of the projects;</li> <li>Considered how the Council has satisfied itself of the legality of projects; and</li> <li>Assessed how the Council has considered the security, liquidity and yield of its property acquisitions.</li> </ul> <p>There are no matters we wish to bring to your attention.</p>

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 10 March 2014
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. 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 Committee on 22 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 10 March 2014.

## Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee – Code work	63,407	63,407	
Certification of claims and returns	22,199	22,199	The Audit Commission reduced the scale fee for grants following issue of our plan

- ▶ 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.
- ▶ At the time of reporting, grant claim certification work is in its early stages and so actual outturn may vary from budget, which is the basis for the proposed final fee above.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

## Ernst & Young LLP

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

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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.

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