



Fareham Borough Council

**Auditor's Annual Report
Year ended 31 March 2021**

28 March 2022



EY

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Contents

Section	Page
01 - Executive Summary	02
02 - Purpose and responsibilities	05
03 - Financial statements audit	07
04 - Value for Money	13
05 – Other reporting issues	27
Appendix 1 – Fees	30

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

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

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 Hywel Ball, 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.

Section 1

Executive Summary



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council's:	
Financial statements	We issued an unqualified opinion – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
Going concern	We 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.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	We concluded that financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We concluded that we are satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 28 February 2022 to the Audit and Governance Committee on 14 March 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued, We will liaise with the Council to complete this work as required

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Deputy Chief Executive Officer. We include details of the audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Kevin Suter

Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, any recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we presented to the Audit and Governance Committee on 12 July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit – Fareham Borough Council

Key issues

We issued an unqualified audit opinion on the Council's 2020/21 financial statements on 18 March 2022.

The Annual Report and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We issued an unqualified opinion on the financial statements. We reported our Audit Results Report to the 14 March meeting of the Audit and Governance Committee. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Conclusion

Misstatements due to fraud or error - management override of controls

An ever present risk that management is in a unique position to commit 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 did not identify 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.

Inappropriate capitalisation of revenue expenditure

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 identified opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

In response to the risk we tested capital additions to ensure that the expenditure incurred and capitalised was clearly capital in nature.

We identified no instances where expenditure had been inappropriately capitalised.

Continued over.

Financial Statement Audit – Fareham Borough Council (continued)

Significant Risk	Conclusion
<p>Valuation of investment property The fair value of Investment Properties represent a significant balance in the Authority's accounts and are subject to valuation changes and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. We made use of our own professionally qualified valuation specialists to support our work in this area.</p>	<p>We completed our work in this area with no significant findings.</p> <p>All properties reviewed fell within our expected ranges.</p> <p>One misstatement was identified and was adjusted for which is the misclassification of an item of other land and building as an investment property. This had a value of £1.3m and caused the in-year revaluation increase of £1m to be reclassified as Other Comprehensive Income.</p>

Financial Statement Audit – Fareham Borough Council (continued)

Other area of audit focus	Conclusion
<p>Valuation of operational Land and Buildings</p> <p>The fair value of Property Plant and Equipment 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.</p>	<p>We reviewed the work performed by a review of the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. We sample tested a selection of assets.</p> <p>Our work in this area identified two significant findings relating to the areas used for the calculation of the values of two properties. This resulted in a net increase of £2.3m to the valuation of operational land and buildings.</p>
<p>Pension liability valuation</p> <p>The Pension Fund liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We obtained assurances from the auditors of Hampshire Pension Fund that the information supplied to the actuary in relation to Fareham Borough Council was accurate and complete.</p> <p>An adjustment of £2.5m was required as a result of our work to reflect the Council's share of the difference between the estimated value of Pension Fund assets the final audited value.</p> <p>We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate, and the assumptions were reasonable.</p>
<p>Going concern disclosures</p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>Our review of management's continued use of the going concern assumption concludes it remains appropriate. We reviewed the proposed going concern disclosures for inclusion in the financial statements and proposed relatively minor updates which management made. In our view no significant uncertainty exists that may cast doubt on the Council's ability to continue as a going concern, which would be required to be disclosed.</p> <p>The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital.</p>

Financial Statement Audit – Fareham Borough Council (continued)

Other area of audit focus	Conclusion
<p>Accounting for Covid-19 related grant funding</p> <p>The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.</p>	<p>Where the Council acted as principal, because it has the control over the allocation of the funding to the beneficiaries of these grants then these should be processed through the Comprehensive Income and Expenditure Statement (CIES).</p> <p>For those grants received where the Council is acting as an agent – passing on the funds without any discretion - we would not expect these to be processed through the (CIES) but would expect to see the amounts received disclosed in the notes to the accounts.</p> <p>Based on the work performed we were not satisfied with the accounting treatment adopted for Covid-19 related government grants. The accounts held a number of the principal Covid-19 grants within creditors rather than income and expenditure. We worked with the Council to agree the final figures to be posted into the accounts, resulting in material corrections of £2.8m within income and expenditure and £1.9m between creditors and receipts in advance.</p>
<p>NNDR Appeals provision</p> <p>The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements.</p> <p>In prior years we have identified errors above our audit differences threshold.</p>	<p>We have reviewed the calculation of the provision and confirmed that the calculation initially used the management specialist threat report to estimate the level of outstanding appeals.</p> <p>There was an incorrectly labelled column in this report which included the forecast losses from 21/22 and 22/23. This caused the provisions to be overstated by £2.4m, with Fareham's share amounting to a £989k overstatement.</p> <p>We reviewed the assumptions, methods and models used by management's specialist. We identified no issues other than the documentation issue noted above.</p> <p>Our post year-end review of appeals settled identified no issues.</p>

Financial Statement Audit – Fareham Borough Council (continued)

Audit differences

Other than the differences identified above and a relatively small number of errors and misstatements in disclosures which management corrected, we identified a payable of £959k incorrectly transferred from a cash control account. Upon investigation we identified that this was caused by a timing difference as to when the reconciliation was performed, we therefore agreed with the council that this should be adjusted to remove the amount from payables to the cash account.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £1.319m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit and Governance Committee that we would report to the Committee all audit differences in excess of £0.066m.

Section 4

Value for Money



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 12 July 2021 Audit and Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work in the week commencing 14 March 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- **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.
 - **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.
-

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

How the body ensures that it identifies all significant financial pressures that are relevant to its short term and medium-term plans and builds these into them

The Medium-Term Finance Strategy (MTFS) is reviewed annually and involves discussions with the Deputy Chief Executive, Head of Finance and Audit and two Finance Managers who should be aware of most the significant pressures arising. The Finance Managers are in regular discussion with the Finance Business Partners, at least once a month. All services are assigned a Finance Business Partner and their role is to be in regular discussion with their services to identify financial pressures arising.

Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to see the effect. In 2020/21 this resulted in an emergency budget being taken to the Executive in September before the update of the MTFS was scheduled. This was then used to update the MTFS.

Regular Corporate Financial Forecasting meetings are held with the Deputy Chief Executive, Head of Finance and Audit and two Finance Managers to review the current financial position. These are usually held every two months or more frequently at times when the MTFS and outturn reports are being prepared. This is backed up by a "Good News/Bad News" update from each of the Finance Business Partners.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Arrangements took into account the impact of the Covid-19 pandemic.

Financial sustainability (continued)

Further financial monitoring is introduced if needed. The finance team introduced a weekly covid monitoring dashboard which highlighted the financial impacts of the pandemic and was predicting further shortfalls arising which would need to be financed from reserves. This was done to take into account the first lockdown and then updated when the next lockdown occurred.

How the body plans to bridge its funding gaps and identifies achievable savings

The MTFs contains a 5-year projection of net expenditure and funding sources and highlights any funding gaps arising.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Funding gaps are addressed through an Opportunity Plan, which is well managed

As a result of the gaps identified 2 years ago the organisation carried out an exercise to identify opportunities to save money or generate income. The ideas arising were moderated by the Chief Executive and Deputy Chief Executive to set a 2-year Opportunity Plan of projects to be delivered. This plan is updated and extended as further funding gaps are identified.

Reserves were then allocated to finance the establishment of an "Opportunities Plan project team" plus other associated costs which would be needed to achieve the implementation the projects identified.

Progress on delivery of the plan is reported to the Opportunities Board which consists of the Chief Executive, Deputy Chief Executive, Head of Finance and Audit, Director of Leisure and Community and the Project team lead.

Savings being achieved as projects are delivered are built into the budgets each year and highlighted in the Executive reports.

Larger projects are also subject to specific reports to the Executive supported by member briefings

Reserves are also maintained to solve short-term issues outside of the Opportunities Plan. Monitoring of the financial impacts of the pandemic was predicting further shortfalls arising which would need to be financed from reserves.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

Formal budget setting is carried out in the summer / late autumn each year with updates during the year as appropriate. This involves discussions between service manager and their Finance Business Partners to ensure that funding in built in to deliver the statutory priorities.

The Council maintains a Corporate Strategy which sets out its strategic priorities. Service managers and Finance Business Partners are made aware of the content of the document and take this into account when setting the budgets each year.

Financial sustainability (continued)

A formal support document is being developed to map the budget allocations against the corporate strategy headings, particular where capital funding will be required.

The funding will be monitored through the budgetary control process.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Finances link to the Corporate Strategy, and other organisational plans.

Operational changes are identified by Finance Business Partners during the year through discussion with their service managers; they are also involved in checking any reports going to the various decision-making committees which have financial implications. This will include specific plans for the organisation. Any significant changes are highlighted in the good news / bad news updates prepared by the Finance Business Partners.

The Council has a number of well-established partnerships which are built into the normal budgetary control processes. Any significant changes to the partnership will be subject to reports to the Executive Committee which will highlight the financial implications. Finance Business Partners will be involved in the production of these reports and can capture the implication for the financial plan.

There is an establishment monitoring process carried out by the finance team which feeds into the Corporate Financial Forecasting monitoring and the MTFS. Any changes in establishment is subject to the completion of a financial implication sheet which is prepared in consultation with the relevant Finance Business Partner.

Projects to be added to the Capital programme are subject to the completion of a capital evaluation form. The funding needs for the resulting capital programme are discussed between the two Finance Mangers and any need for Revenue contributions or use of reserves identified. This is monitored through the Corporate Financial Forecasting meetings.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Regular Corporate Financial Forecasting meetings are held with Deputy Chief Executive, Head of Finance and Audit and the two Finance Managers to review the current financial position. This is backed up by a “Good News/Bad News” update from each of the Finance Business Partners, who will be picking up unplanned changes in demand from their budget meetings with service managers. Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to see the effect.

Financial sustainability (continued)

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Regular monitoring and reporting manages risks, including from the pandemic.

In 2020/21 Fareham Borough Council supplemented this process by the introduction of weekly Covid dashboards to highlight the financial impact of the pandemic where assumptions underlying the current financial plans were significantly affected and needed revising. This resulted in an unplanned emergency budget being presented to members in September, along with a Financial Recovery plan (after lockdown 1).

In 2019/20 Fareham Borough Council introduced a “Living within our means” campaign to highlight to managers the predicted overspend for the year and the need to turn around the trend in spending. In 2020/21 this moved to a “Living below our means” campaign due to the financial forecasts arising from the Covid dashboard monitoring, which sought to minimise the level of reserves that would be needed to finance the council’s spending that year and in the following year.

Reserves are also available to solve short-term issues.

Governance

How the body monitors and assessed risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Risk management is an integrated process with everyday management of the Council. Processes were amended during the pandemic, focusing on the Council's response and recovery.

Good arrangements are in place for Internal Audit, and to counter fraud.

The council adopted a new approach to risk management in 2017, based on vanguard principles. This stresses that risk management is an integral part of everyday management and decision making and not as a separate corporate process and therefore do not maintain risk registers except for specific topics and projects. The policy sets out the 7 principles of good risk management at the Council. Meetings are held with Internal Audit, Finance Business Partners and Heads of Service to identify the risks to their services every year (in two 6 monthly batches) and examples are obtained of changes in their risks that they have been managing in the last 12 months. These feed into a report to the senior management team and the Audit and Governance Committee. In particular, the report highlights those risks where further actions are needed.

These six-monthly risk reports have been put in hold during pandemic and risk management activity has focused on the council's response and recovery, including a set of formal written recovery plans for the last report before being put on hold.

The Council maintains an internal audit service which is resourced in partnership with Portsmouth City Council. The Head of Audit, however, remains an employee of Fareham Borough Council. The internal audit service provided independent assurance on the effective operation of controls in accordance with the internal audit strategy and internal audit charter. A plan of work is set for the team each year per the Internal Audit Plan. Progress on delivering the plan and the latest findings arising are reported to each meeting of the Audit and Governance Committee. The results of all this work is used in the Annual Head of Audit's Opinion report along with other sources of assurances on internal control available that year, to provide the Audit and Governance Committee an annual assurance opinion. Highlights are also presented to the Chief Executives Assurance Group.

As well as the Internal Audit service, the Councils also maintains a Corporate Fraud Team and an Investigations Team, and their work is also used by management to gain assurance on arrangements to prevent and detect fraud.

The scope of the work carried out by internal audit includes testing the adequacy of controls to prevent or detect fraud or error. The reports include overall assurance opinions for each audit and highlight any weaknesses in controls designed to prevent and detect fraud and error. The Annual Head of Audit's report also highlights any income or expenditure errors (including the value) which have been identified from audit testing.

An Annual Counter Fraud Report is also produced and presented to the Audit and Governance Committee by the Head of Finance and Audit.

Governance (continued)

The Section 151 Officer is also kept aware of any significant Corporate Fraud investigations, particularly where internal fraud is suspected and is often the Steering Officer for these cases so is aware of what is being found in these cases.

How the body approaches and carries out its annual budget setting process

The approach has been the same for a number of years. The budget papers roll the base budget forward and the Finance Business Partners make known changes in line with the guidance from the MTFs and following discussions with the service managers. The Finance Manager is responsible for overseeing the whole process and will regularly monitor the budget position from an overall perspective including the financing of the budget from central government grants, retained business rates and council tax funding. The Finance Manager also leads on feeding in the amended establishment costs for the year. The other Finance Manager prepares the projections for the Capital programme to feed in any financing implications to the revenue budget preparation.

Once all the information has been collated the Finance Manager pulls together the overall budget proposed and updates the 5-year projections. The budget set and the council tax implications are presented to the Executive Committee.

The Council is currently implementing a new finance system which will include an integrated budget setting module.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Budget reports are produced electronically daily and are available to the budget managers. They are used and adapted by Finance Business Partners in their regular budgetary control monitoring meetings.

Regular Corporate Financial Forecasting meetings are held with the Deputy Chief Executive, Head of Finance and Audit and the two Finance Managers to review the current financial position. These are usually held every two months or more frequently at times when the MTFs and outturn reports are being prepared. This is backed up by a "Good News/Bad News" update from each of the Finance Business Partners, which highlights issues arising from their meetings with service managers.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Annual budgeting processes are appropriate, and effective arrangements are in place to manage the budget through the year.

Governance (continued)

Formal budget monitoring information is presented to members as part of the next year's budget setting process at which points revised budgets will be set. A six-monthly position report is also presented to the Executive each autumn. An outturn position report is presented to members in July each year which includes a narrative of the financial activity in the year.

Monthly summary financial information is published online for all Members and the public. This can be found on the Council's website at:

http://www.fareham.gov.uk/pdf/about_the_council/councilport.pdf

A narrative report is included in the Statement of Accounts highlighting the financial and non-financial performance in the year. This is presented to the Audit and Governance Committee.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Decisions are made following the Constitution, considering legal and financial responsibilities.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Audit Committee

The Constitution, including the Schemes of Delegation, sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed. Procedures include publishing committee reports on the Council's website in advance of meetings.

The committee structure follows the Executive Leader and cabinet model, which requires Fareham to have a scrutiny function. The Council uses a Scrutiny Panel for each of its six portfolio areas. Each Panel is made up of seven non-executive councillors and reflects the political balance of the elected members. The Panels normally meet a minimum of four times a year with extra meetings called when needed. Each Scrutiny Panel has a Priority Plan which identifies the objectives from the Corporate Strategy and areas of the executive function that require their scrutiny; for example, budget setting falls under the Policy and Resources Scrutiny Panel. Part of the panels' focus is to be engaged in pre-scrutiny work and to have an input in the decision-making process by making recommendations to the Executive. In some cases, specific member working groups are in place to assist in the development of service visions and strategies.

The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings, along with a representative from the legal services partnership.

Governance (continued)

The Notice of Key Decisions highlights any key decisions due to be made and these are published 28 days prior, to enable wider transparency and opportunities for representation to the decision makers. These are discussed in advance by the Chief Executive's Management Team.

Where partnerships have been developed with other agencies, decision making powers and delegated powers are documented and presented to members.

The Audit and Governance Committee's role is not to challenge the decisions of the Executive, that is the role of the Scrutiny Panels. Their role is to review the adequacy of the governance arrangements including decision making which is covered when they review the Annual Governance Statement and review the changes being made to the Constitution. They also recently requested clarity on how to refer an item for consideration through the decision-making process.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Appropriate arrangements are in place to ensure the Council meets appropriate standards in behaviours.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

In accordance with the Localism Act 2011 Fareham Borough Council has a Code of Conduct which sets out the behaviours expected from our members, and arrangements in place to deal with any matters identifies of ethics, honesty and member conduct. This includes a formal member complaint procedure which is overseen by the Monitoring Officer. New members receive an induction session on the Code including how to declare interests in advance and at committee meetings.

A report is presented annually to the Audit and Governance Committee setting out the number of complaints received about member and any trends. A standards sub-committee is set up when a significant breach by a member requires investigation and the conclusion is reported at the next meeting of the Audit and Governance Committee and Full Council.

The Council's Code of Conduct and Disciplinary Rules and Procedure aim to maintain appropriate standards of conduct at work by employees. All new employees complete induction on the content of the Code. A revised policy on employee gifts, hospitality and interests has been drafted to meet the needs of the Bribery Act and will be finalised in 2021/22 along with a new platform for the Register of interests. The Council has an Anti-Bribery policy and a Whistleblowing policy and channels to allow concerns to be raised.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance to identify areas for improvement

The budget monitoring report identifies areas that are of high demand or have a net budget of over £1m. The reporting of these services highlights where risks can be identified should these areas be overspent.

The Tree service budgets is an example of this. As this service continued to overspend year on year, the Council made a temporary increase in this budget in 2019/20 and evoked an opportunity plan project to look at the service provision and spend of the service. This review carried on throughout 2020/21 and was finalised in 2021/22 with a report to the Executive Committee. The proposals in the review of the Council's Trees Service review helps to ensure that the Council's growing tree stock continues to be managed in an effective way whilst minimising the risk of future budgetary pressures.

At the end of the year any areas which were overspent are discussed in the Finance Business Partners meeting and an action plan devised to work with the service to bring the spend under control.

Performance information is also collated, particularly in the form of the service level agreement report and discussed to identify areas for improvement.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Financial and performance information are used to assess services.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities.

It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This has been embedded throughout the organisation through a formal roll-out of the Vanguard method of service improvement over recent years. Alongside this, a strong and clear message, enshrined within the Councils corporate objectives to be a "dynamic prudent and progressive council", has been cascaded throughout the organisation to ensure that services are highly effective and efficient.

Improving economy, efficiency and effectiveness (continued)

Lines of responsibility in leading service delivery make it clear that Heads of Service are responsible and empowered to make continuous improvements to deliver services that meet customer expectations within affordable financial parameters. Documents such as the Chief Executive's "Expectations of a Director, and Head of Service" ensure that this approach is consistent across the organization.

Understanding actual performance is key, and this is measured across all front line services using "10/10" surveys where Heads of Service contact a sample of customers and first ask them to rate the Council's service out of 10, and then ask them what it would take for the Council to get a 9 or 10" This customer feedback helps the Council understand what it would take to achieve excellent customer service and (where appropriate) the processes within the service are adapted to reflect these suggestions.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Similarly, the Council produces a range of commitments and measures each year within its Local Service Agreements. This is a public document that helps to explain what customers can expect from the Council and reports how well it's doing. This is formally approved by the Executive and scrutinised by the Policy and Resources Scrutiny Panel.

All of these channels provide the leadership team with a rounded view of how well services are performing from the customer's perspective and enables the Council to focus on areas where improvement may be necessary.

The Council aims to put the customer at the heart of all services.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council maintains a Corporate List of its significant partnerships. These are assessed for their significance in terms of the results they seek to deliver, their profile/reputation and resources involved.

Lead officers are assigned to each partnership. They are responsible for the day to day liaison with the stakeholders and customers of the partnership and for providing the Chief Executive's Management Team with details of any significant changes to the circumstances / membership of the partnership.

Improving economy, efficiency and effectiveness (continued)

Senior Officers and/or Members sit on the board of the Council's significant partnerships and take an active part in discussions and decision making including the delivery of strategies and performance plans set for the partnership. The Council is the lead on the financial management for the Building Control Partnership (with Gosport Borough Council and Portsmouth City Council) and is also finance lead on the Environmental Health partnership with Gosport Borough Council so is in a good position to ensure the financial control and effectiveness of the partnerships. There are regular board meetings held and a representative of the finance team will provide an update on the financial position.

The Coastal Partnership is led by Havant Borough Council and regular monitoring meetings are held to discuss how the partnership is performing. An action arising this year has been to update the agreement and monitor the delivery of assurance arising from financial and internal audits.

The Legal Partnership with Southampton City Council is monitored closely to ensure that the hours worked is not breached or that work is carried out at a relevant level so as to make sure that the partnership is not overspent at the end of the year or any additional hours or cost will be agreed between the two parties.

An annual report on partnerships is collated and reviewed by the Chief Executive's Management Team each year to confirm the significance of the partnerships, review any potential governance issues and review how each is performing. As a result of the 2020/21 report three partnerships were removed from the list where they were no longer considered to be operating as a partnership. There is also now an annual Partnership governance report presented to the Audit and Governance Committee.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council has a range of partnership arrangements, which are annually reviewed.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council employs a Procurement team to assist services when carrying out procurement processes. They are professionally trained and in constant contact with the Southampton Legal team to ensure that they keep up to date with changes in procurement law, and that their procedures meet the latest national and international requirements. They are also key parties along with the internal audit team to keeping the Council's Procurement and Contract Procedure Rules current and relevant to the organisation's needs. One of the key principles of the Rules are that a manager should be able to "Justify their Spend".

Improving economy, efficiency and effectiveness (continued)

Services are required to liaise with the procurement team and their Finance Business Partner when carrying out significant purchasing decisions and the group have to all agree a procurement approach else there is an escalation process to be followed. This includes when the purchase is complex or organisational sensitive such as the procurement of a service provider. There are a set of key questions that are asked when a significant purchase is being made.

Once a contract is in place there is a named lead officer assigned to monitor the performance of the contract. This will usually involve regular meetings with the contractor and a review of any performance measures agreed as part of the contract.

For relevant services, such as housing, this will also include satisfaction monitoring with the customer. Where appropriate, rectifying actions are agreed and documented. Where performance does not meet expectations and the actions are not delivered, the Council may consider ending that contract relationship. This decision is usually taken in consultation with the contract manager, the director of that service and the procurement team.

There are some expectations of the manager during the contract management stage contained in the Procurement and Contract Procedure Rules but these are not extensive. They currently cover contract documentation and contract payments but are due to be expanded further, through a series of contract management workshops where the procurement team will be working with services to identify best practice in contract management.

The Council also recognises critical suppliers/businesses. Examples include the Leisure Centre Operators, the provider of the responsive housing repairs contract, the airport operator at Daedalus and tenants of investment properties. A member of the finance team is assigned to each supplier and tasked with carrying out monitoring of the financial stability of the supplier using the Council's on-line Dunn and Bradstreet tool.

The Internal audit service includes some coverage in their plan of work to look at purchasing decisions and whether the suppliers are providing value for money.

Purchasing officers for a sample of purchases are interviewed and questioned on their knowledge of their total spend trends with a supplier, how the supplier was chosen and whether the appropriate route to market had been taken. They are also questioned on how they can give assurance on how some of the items on a selected invoice provides value for money. Where possible, they are compared to the cost of similar purchases made or available by open source searching. Other areas examined include on-going contract monitoring, invoice verification and future planned market testing.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Procurement arrangements are appropriate, and contracts are managed after the procurement process,



Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Council to complete this work as required.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues to date during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Control Themes and Observations

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 adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any control issues to bring to the attention of the Audit and Governance Committee.

Appendix A

Audit Fees



Audit Fees – Fareham Borough Council

The scale fee for 2020/21 is in line with the audit fee reported in our Audit Plan and Audit Results Report. Included below are details of the proposed additional fees for 2020/21.

We undertook no non-audit work.

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
PSAA Scale Fee	37,137	37,137	37,137
Proposed scale fee rebasing (Note 1)	24,901	19,921	19,944
Other proposed fee variation (Note 3)	25,416	10,382	(Note 2)
Total Fees	87,454	67,440	57,081

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed in 2019/20 that the recurrent cost of additional requirements to carry out our audit should increase by £19,921. We have continued to include this increase at the same audit inputs, but updated for PSAA's 25% increase in the scale fee variation fee rates for 2020/21.

Note 2 – together with the rebasing proposal, for 2019/20 we submitted a variation of £12,657. PSAA determined both together, for the total of £19,944.

Note 3 – we propose an in-year variation of £25,416 for issues encountered during the audit, as set out in this report including investment property and other land and buildings valuations, going concern disclosures, accounting for covid-19 related grant income and NNDR Appeals.

This incorporates PSAA's published 'Additional information for 2020/21 audit fees' in August 2021. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes for requirements relating to the new VFM requirements under the NAO's 2020 Code of Audit Practice (£6k - £11k), and the revised auditing standard on estimates ISA540 (minimum £2.5k).

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