

New Forest District Council

Year ending 31 March 2013

Annual Audit Letter

October 2013



Building a better
working world



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IN PEOPLE

The Members
New Forest District Council
Appletree Court
Beaulieu Road
Lyndhurst
SO43 7PA

October 2013

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of New Forest District Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

2012/13 Audit results report for New Forest
District Council

Issued 27 September 2013 to the Audit
Committee

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of New Forest District Council for their assistance during the course of our work.

Yours faithfully

Helen Thompson
For and behalf of Ernst & Young LLP
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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.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 6 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis 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 Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of New Forest District Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 27 September 2013 we issued an unqualified audit opinion for the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 27 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 27 September 2013 we issued our report for the Authority.
Report to the National Audit Office on the accuracy of the property, plant and equipment and pension liability entries in the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 27 September 2013.
Consider the completeness of disclosures in the Authority'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 CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	There is one local elector objection outstanding at 27 September 2013. Refer to section 2.3.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

There is one local elector objection outstanding at 27 September 2013. Refer to section 2.3.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

We have been unable to issue our audit completion certificate due to the local elector objection described in section 2.3.

Issue a report to those charged with governance of the Authority summarising the certification of grant claims and returns work that we have undertaken.

We issued our report on the claims and returns for 2011/12 in January 2013.

In January 2014 we will issue our annual certification report to those charged with governance for the 2012/13 financial year.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 27 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers was very good.

The main issues identified as part of our audit of your financial statements, including our conclusions in relation to the areas of risk/areas of audit emphasis outlined in our Audit Plan, were:

Bank reconciliations

The bank reconciliations to December 2012 included a large number of reconciling items caused through inconsistent banking and posting of transactions. This occurred where transactions were paid into one bank account but posted to the cost centre of the other bank account.

Audit testing found that year end bank reconciliations had been adequately prepared and reconciling items had been cleared.

General ledger/Aged debtors reconciliation

As reported in the Audit Commission's 2011/12 Annual Governance Report, as at 31 March 2012, the Authority's aged debt analysis totalled approximately £115,000 less than the debtors balance in Agresso. Despite investigation, at the date of the Audit Plan, the difference had increased to £331,000.

Audit testing found the difference had reduced to £3,000 as at 31 March 2013 and no further issues were noted.

Treasury management – year end cut off risk

We identified a cut off risk across accounting years relating to treasury management transactions. This was due to a delay in posting transactions to the general ledger.

Our audit of year end investment balances found all transactions had been recorded in the correct period.

Other reconciliations

Our review of accountancy reconciliations at the date of our Audit Plan noted that a number of reconciliations were not up to date.

We found all reconciliations to be up-to-date at year end.

Property plant and equipment valuation

Property, plant and equipment (PPE) must be valued at fair value. The Authority appointed new valuers to value its corporate and housing assets in 2012/13. At the date of our Audit Plan, we had not received sufficient assurance over the valuation arrangements.

Through our audit procedures we were able to rely upon the work produced by the Authority's valuer; and found the disclosures and balances to be materially correct and in agreement with the valuer's report.

Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

We inquired of management and internal audit about risks of fraud and the controls put in place to address those risks, gained an understanding of the oversight given by those charged with governance of management's processes over fraud and considered the effectiveness of management's controls

We also undertook mandatory substantive audit procedures and tests and found no issues to report.

The following non-significant issues were identified during the course of the audit:

- ▶ the asset register of the Authority remained un-reconciled to the ledger at year end. However, we obtained adequate assurance that asset balances were materially correct through substantively testing in-year movements;
- ▶ there was no evidence to confirm that empty properties recorded in the Authority's business rates system had been verified with an inspection. As part of the year-end audit we substantively tested balances in the Collection Fund and found no issues with void transactions; and
- ▶ the Authority charged an additional £2.4 million to the Comprehensive Income and Expenditure Statement in 2012/13 due to an increase in the threshold at which it capitalises property plant and equipment assets. Changes in accounting policies are applied retrospectively (i.e. they require a prior period adjustment) unless a body can demonstrate that it is impractical to do so. The Authority demonstrated why it would be impractical to carry out a prior period adjustment and disclosed its reasoning in the financial statements. This was found to be acceptable under the relevant accounting standards.

2.2 Value for Money Conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ▶ the organisation has proper arrangements in place for securing financial resilience; and
- ▶ the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 27 September 2013.

As part of our planning we did not identify any significant risks. However, we did identify a number of areas that we would consider and our observations are reported below:

- ▶ the Authority has been reviewing its risk management arrangements during 2012/13 and an updated Risk Management Strategy and Strategic Risk Register were approved by Cabinet on 4 September 2013;
- ▶ in April 2013 Cabinet approved a loan of £3.24 million to Lyminster Harbour Commissioners for the repair and upkeep of Lyminster Harbour. To date the

loan has not been made and this potential transaction has been disclosed as a 'non-adjusting post balance sheet event' in the financial statements;

- ▶ we found that the Authority's budget setting arrangements are effective up to 2013/14. However, the medium term financial plan does not yet go beyond 31 March 2015. Good practice suggests that medium term financial plans should cover between 3 and 5 years; and
- ▶ we reviewed the Authority's implementation of its housing strategy. We reviewed the Authority's implementation policies and found them to be adequate.

2.3 Objections received

We received one objection to the 2012/13 accounts from a member of the public. We are currently assessing this objection. We concluded that it did not impact the issue of the audit report on the financial statements or the value for money conclusion. We are not however able to issue the audit completion certificate until we have concluded the objection.

2.4 Whole of government accounts

We reported to the National Audit office on 30 September 2013 the results of our work performed in relation the accuracy of the property, plant and equipment and pension liability entries in the consolidation pack. We did not identify any areas of concern.

2.5 Annual governance statement

We are required to consider the completeness of disclosures in the Authority'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 CIPFA / SOLACE guidance. We completed this work and did not identify any areas of concern.

2.6 Certification of grants claims and returns

We communicated our Annual Certification Report for 2011/12 to those charged with governance in January 2013. We certified 3 claims and returns.

We will issue the Annual Certification Report for 2012/13 in January 2014.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicate to those charged with governance at the Authority, as required, significant deficiencies in internal control.

Our audit did not identify any matters of sufficient importance to merit being reported.

4. Audit fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010.

Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee.

The final audit fee cannot yet be reported as we are dealing with an objection received in relation to the 2012/13 financial statements. We seek to keep this cost to a minimum consistent with the proper discharge of our statutory responsibilities.

	Proposed final fee 2012/13 £'000	Planned fee 2012/13 £'000	Scale fee 2012/13 £'000	Explanation of variance
Total Audit Fee – Code work	TBD	73,076	73,076	Fee for objection to be determined
Certification of claims and returns	8,700*	8,700	8,700	-
Non-audit work	Nil	Nil	-	-

**Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Audit Certification Report for 2012/13.*

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