

# New Forest District Council

Audit Committee Progress Report

March 2014





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11 March 2014

## Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the completed 2012/13 audit, and an outline of our plans for the 2013/14 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson  
Director  
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 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.

## Work completed: 2012/13

We are presenting our annual report on the certification of claims and returns to the Committee today. This completes our work in relation to the 2012/13 financial year.

<b>Progress against key deliverables</b>			
<b>Key deliverable</b>	<b>Timetable in plan</b>	<b>Status</b>	<b>Comments</b>
Fee Letter	December 2012	Completed	Reported to Audit Committee March 2013
Audit Plan	March/April 2013	Completed	Reported to Audit Committee March 2013
Report to Those Charged with Governance	September 2013	Completed	Reported to Audit Committee September 2013
Audit Report (including opinion, vfm conclusion)	September 2013	Completed	Reported to Audit Committee September 2013
Audit Certificate	September 2013	Completed	Reported to Audit Committee January 2014
WGA submission to NAO	September 2013	Completed	Reported to Audit Committee September 2013
Annual Audit Letter	October 2013	Completed	Reported to Audit Committee January 2014
Report on the audit of Grant Claims	December 2013	Completed	Reported to Audit Committee March 2014.

## 2013/14 audit

### Fee letter

We issued our 2013/14 fee letter to the Council in April 2013.

### Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning, we have held a number of meetings with key officers and other stakeholders to ensure the 2013/14 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

#### Planning visit

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls is in progress. The detailed testing of the controls and critical path of each material system is planned for March 2014.

We will review Internal Audit's testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

#### Post statements visit

We have agreed dates for our audit visit, and will have early discussions on the working papers required

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the Joint Audit Committee in June 2014.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

### Value for money

The Audit Commission has now issued its guidance on the 2013/14 value for money conclusion. The full guidance can be found at <http://www.audit-commission.gov.uk/technicaldirectory/vfm1314/>.

There are no planned changes to the approach in 2013/14. We will carry out our initial risk assessment in early 2014 and report the risks we have identified, and associated work we will carry out, to the June 2014 Audit Committee.

### Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings. The most recent Briefing is included on today's agenda as an appendix to this update.

## Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2013/14 Audit Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

Audit phase	EY Timetable	Deliverable	Associated Audit Committee	Status
High level planning	<b>Ongoing</b>	Audit Fee Letter	March 2013	Completed - Reported to the March 2013 Committee
Risk assessment and setting of scope of audit	<b>Feb – April 2014</b>	Audit Plan	June 2014	Completed
Testing of routine processes and controls	<b>Feb – April 2014</b>	Audit Plan	June 2014	In progress
Year-end audit	<b>June - August 2014</b>	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2014	Work is planned to start on 30 June 2014
Annual Reporting	<b>October 2014</b>	Annual Audit Letter	January 2015	-
Grant Claims	<b>September – November 2014</b>	Annual certification report	January or March 2015	

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# Local Government Audit Committee briefing

## Contents at a glance

### Sector and economic news

### Accounting, auditing and governance

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### Find out more

## Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



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## Sector and economic news

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### **Economic Outlook**

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, published its Winter Forecast in January 2014. It recognises that the UK's economic rebound is continuing to exceed expectations with GDP now projected to grow by 2.7% in 2014 followed by 2.4% in 2015.

Although this headline news is positive, the reality is more complex. The current recovery is lopsided in two ways. The first is that it's being driven almost exclusively by consumer spending and housing. Until rising business confidence is matched by a revival in investment and exports, the upturn will be neither balanced nor sustainable.

The second imbalance is that, despite rising employment, real wages are continuing to fall. This gap reflects a number of structural shifts in the workforce, and should close by the start of 2015. But its effect is that consumer spending cannot continue to drive the recovery without triggering a new and unwelcome rebound in household debt.

EY ITEM Club notes: 'this situation poses a dilemma for the Bank of England's Monetary Policy Committee as it gauges when to raise interest rates.'

With employment rising but real wages falling, the unemployment rate alone is too blunt a measure. Instead, the MPC must hold interest rates steady until real wages and business investment are rising. Otherwise it risks aborting the recovery before it reaches escape velocity.'

### **Enhancements to Bellwin Grant**

The government is changing the terms of the Bellwin scheme to help local authorities meet costs associated with the recent severe weather. The changes will ensure the grant is paid at 100% above the threshold instead of 85%, extend the eligible spending period to the end of March 2014, reduce the thresholds for county councils and unitary authorities, and allow upper tier authorities with fire responsibilities to claim on the same basis as standalone fire authorities for fire related costs.

The Bellwin scheme was activated in December 2013. Ministers have also committed to a longer term review of the Bellwin scheme to consider changes to its operation which may be required due to more frequent and challenging weather events.



## Sector and economic news

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### **Making best use of the Better Care Fund**

Announced by the government in the June 2013 spending round, the £3.8bn Integration Transformation Fund now known as the Better Care Fund is described as 'a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and Local Authorities'. The Fund, available from April 2015, offers an opportunity to bring resources together to address immediate pressures on services and lay foundations for a much more integrated system of health and care. The intention is that social care and health care be fully integrated by 2018.

For Local Authorities, this will require the contribution of the Social Care Capital grant and Disabled Facilities Grant allocations for 2015/16 to the pooled budget.

Health and Wellbeing Board areas were required to submit a draft plan for their use of this fund by 14th February, and the revised plan by 4th April 2014. The King's Fund has published 'Making best use of the Better Care Fund – Spending to Save?' which 'offers an evidence-based guide to aid the discussions between clinical commissioning groups, Local Authorities and health and wellbeing boards' and presents evidence from The King's Fund and others in a number of different areas including primary prevention, selfcare, and case management.



# Accounting, auditing and governance

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## Greater Business Challenges call for Stronger Audit Committees

Audit committees have traditionally comprised of people with deep finance and accounting expertise, a reflection of the committee's statutory financial control and reporting oversight duties. But, in recent years, the business environment has become more complex and its role has expanded, leading many boards and audit committees to rethink the skills they need.

The audit committee's remit now includes overseeing risk management, compliance and a series of emerging business risks in areas such as bribery, corruption and cybersecurity.

This increased responsibility includes a call by some regulators for 'stronger audit committees' to oversee the regulatory and business risks that organisations face.

Participants surveyed for the EY report, Greater business challenges call for stronger audit committees, identified diversity of culture, roles and experience as the most important elements of an effective audit committee.

Critical skills include:

- ▶ **Financial expertise:** the committee needs a keen understanding of internal controls and experience in disclosure to its key stakeholders.
- ▶ **Accounting and auditing expertise:** one of the most critical audit committee responsibilities is overseeing the internal and external auditors. The committee needs at least one member who has experience working with both functions, and someone who understands accounting rules and how to apply them.
- ▶ **Leadership:** the committee should include someone who has hands-on experience of leading in an operational role within an organisation. In particular, audit committees would benefit from people who have been CEOs and CFOs.
- ▶ **Industry or sector knowledge:** it's important to have members with sector-specific knowledge – including an understanding of the regulatory environment.



## Regulation news

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### **Business rates valuation: a consultation**

Since 1 April 2013, local government has had a 50% share in business rates income, meaning that local authorities now carry a 50% share of the risk of reductions and refunds from challenges against rateable value. This means that local authorities have to forecast the impact of successful challenges on their future income, a task made difficult by the large number of speculative challenges. The government has launched a consultation, which lasted for 12 weeks until 3 March 2014, on proposals aimed at reforming the appeals process. The objectives of the proposals under consultation are to:

- ▶ Improve transparency of the valuation process
- ▶ Bring business rates into line with the way official decisions are normally challenged
- ▶ Enshrine in law a more formal separation between the Valuation Office Agency (a government taxation setting body) and the Valuation Tribunal for England (the judicial body which reviews decisions made by the VOA)

The government intends to implement these proposals from 1 October 2014.

### **Technical Reforms to Council Tax: national discount for annexes**

Between August and October 2013, the government ran a consultation on the proposed introduction of a discount on the council tax for annexes, where such annexes are occupied by a member of the family of an occupier of the main dwelling. The responses to this consultation were published in December 2013, and the government is planning to implement its proposals. The majority of respondents supported the government's proposed discount of 50%. However, over half of respondents considered that the implementation of this policy would lead to extra costs, mainly in the areas of promotion, IT and administration. The government does not consider that the administration of the new discount will constitute a new burden, as under Regulation 14 of the Council Tax (Administration and Enforcement) Regulations 1992, billing authorities already have a statutory duty to ascertain whether a property is entitled to a discount. However, the overall cost of the discount will be reimbursed to billing authorities by DCLG.



## Regulation news

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### **Local Audit and Accountability Act 2014**

The Local Audit and Accountability Act 2014, which provides for the abolition of the Audit Commission and repeals the Audit Commission Act 1998, received Royal Assent on 30 January 2014. This Act makes provision for the Audit Commission to officially be wound down in 2015. The effective closure date will be 31 March 2015 and will bring to an end the Commission's 30 year involvement with public sector audit.

A transitional body will manage the current round of supplier contracts when they end in 2016/17 or, if extended, 2018/19. Subsequently, the new framework for public audit will replace the Audit Commission. When the existing contracts have run their course, local bodies will be able to appoint their own auditors, although local audit appointments will be overseen by an Independent Auditor Panel, and collective audit procurement will be enabled. Quality will be overseen by the Financial Reporting Council, as for Companies House audits.

The Audit Commission has identified where some of its key functions will be transferred to. These include:

- ▶ The National Fraud Initiative will transfer to the Cabinet Office on 1 April 2015.
- ▶ The National Audit Office will take on the statutory responsibility to produce and maintain the Code of Audit Practice and issue guidance to auditors.

The Commission is still in talks with several government departments to determine where other key areas which it is responsible for such as Value for Money and Counter Fraud will be transferred to.



## Find out more

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### **Economic Outlook**

See the full analysis at:

<http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

### **Enhancements to Bellwin Grant**

Read more at:

<https://www.gov.uk/government/news/more-support-for-communities-affected-by-floods>

### **Making best use of the Better Care Fund**

Find out more at:

<http://www.local.gov.uk/documents/10180/12193/Developing+plans+for+better+care+fund+guidance.pdf/734c155e-7820-4761-976a-6c56053c0e78>

<http://www.kingsfund.org.uk/publications/making-best-use-better-care-fund>

### **Audit Committee Challenges**

Read the latest briefing at:

[http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/\\$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Audit-Committee-Bulletin-Issue-5-October-2013/$FILE/EY-Audit-Committee-Bulletin-Issue-5-October-2013.pdf)

### **Consultation on checking and challenging your rateable value**

Find out more at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/263015/Checking\\_and\\_Challenging\\_your\\_Rateable\\_Value.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263015/Checking_and_Challenging_your_Rateable_Value.pdf)

### **Technical Reforms to Council Tax: national discount for annexes**

Find out more at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/263411/131115-\\_Annex\\_A-\\_Draft\\_summary\\_of\\_responses\\_on\\_annexes\\_consultation-\\_pr.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263411/131115-_Annex_A-_Draft_summary_of_responses_on_annexes_consultation-_pr.pdf)

### **Local Audit and Accountability Act 2014**

Find out more at:

<http://www.audit-commission.gov.uk/2014/01/finish-line-in-sight-for-audit-commission/>

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