



New Forest District Council

Year ending 31 March 2014

Audit Plan

June 2014

Audit Committee
New Forest District Council
Appletree Court
Beaulieu Road
Lyndhurst
SO43 7PA

2 June 2014

Dear Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your external auditor. The purpose of this report is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2014 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, and also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you at the Audit Committee on 20 June 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours sincerely

Helen Thompson
Director
For and behalf of Ernst & Young LLP
Enc

cc

Bob Jackson, Executive Director (Finance)

Malcolm Haines, Manager

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1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ our audit opinion on whether the Council's financial statements give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on your Whole of Government Accounts return.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

At this stage, we do not feel that the overall level of risk in relation to the audit of the financial statements is significantly different from last year. However, we have identified two significant risks, and a small number of other risks in section 2 of this report.

Our plans to address these audit risks are set out at page 5. We will update the Audit Committee on the results of our work in these areas in our report to those charged with governance, scheduled for delivery in September 2014.

Our process and strategy

- ▶ **Financial Statement Audit**
 - ▶ When considering the results of our audit work, we consider them in the context of their materiality to the statements as a whole.
 - ▶ Where possible we will seek to rely on the controls in your systems; therefore reducing the year-end testing required.
 - ▶ There have been no changes to our audit team.
 - ▶ To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of internal audit wherever possible. We have an excellent working arrangement with internal audit and regularly discuss audit coverage and the issues arising from our respective audit work.

- ▶ The scope of our audit remains the same as the prior year and there are no new developments to communicate.
- ▶ Arrangements for securing Economy, Efficiency and Effectiveness
 - ▶ We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.
 - ▶ We have no significant value for money risks to communicate to you.

2. Financial Statement Risks

We outline below our assessment of audit risks arising from the key strategic or operational risks and the financial statement risks facing the Council, identified through our knowledge of the Council's operations and communication with Members, senior officers and staff.

Significant risks	Our audit approach
Risk of management override	
<p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement and the risk is not considered any greater at New Forest District Council than at any other district council.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ testing year end and 'month 13' journal transactions for post year end adjustments; ▶ reviewing accounting estimates for evidence of management bias; and evaluating the business rationale for significant unusual transactions.
Significant risk 2 – Business rates provision and accounting	
<p>The previous business rates (national non domestic rates - NNDR) system had been based on receipts and payments accounting rather than accrual accounting. However, on transfer to the new NNDR system full accrual accounting was introduced. One of the consequences of this is that billing authorities are now required to calculate a provision in respect of valuation appeals that have yet to be decided at the year end.</p> <p>Previously, the impact of these appeals was not recognised until the appeal had been settled so there was no accrued or brought forward liability. Under the new system, any outstanding appeals at 31 March 2013 that had not previously been provided for became a liability of the billing authority's Collection Fund on transition.</p> <p>The provision affects all primary financial statements and there is a potential risk for material error at all billing authorities.</p>	<p>Based on the requirements of the auditing standards our approach will focus on:</p> <ul style="list-style-type: none"> ▶ reviewing provisions and other significant accounting estimates made by management to ensure they are reasonable; and ▶ auditing the business rate balances as per Code guidance.
Other risk 1 – New valuation arrangement	
<p>A new RICS (Royal Institute of Chartered Surveyors) officer will be valuing the Council's property, plant and equipment for the year 2013/14. This creates a continuity risk around the valuation of the Council's asset base and a risk that new valuations could be materially different to brought forward valuations.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ assessing the new officer's qualifications and experience; ▶ obtaining direct representation over the valuer's objectivity and scope; and ▶ agreeing new valuations into the brought forward asset register and gaining explanation for significant variances and revaluations;
Other risk 2 – Treasury management arrangements	
<p>From 1 March 2014, the Council's treasury management arrangements were contracted to Hampshire County Council (which effectively becomes a service organisation to the Council). While we have no specific concerns with the provider, a change to a material accounting system creates an inherent risk of misstatement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ assessing the adequacy of the service organisation' and its expertise and experience in the provision of treasury services; ▶ recording the new process and the its associated controls i.e. authorisation, segregation of duties, etc; and ▶ substantively testing transactions at year end for accuracy and completeness.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that 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.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at the Council; and
2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

We have not identified any significant risks to the value for money (vfm) conclusion. However, we have identified the following key areas that we will consider to support our vfm conclusion:

Financial resilience

- ▶ The Council's risk management arrangements, including review of risk registers and the potential impact of assessed risks.
- ▶ 2014/15 budget setting, and medium term financial planning arrangements, including assumptions made in response to the 2014/15 and provisional 2015/16 settlements.

Economy, efficiency and effectiveness

- ▶ Review the Audit Commission's VFM profile data in respect of the Council.
- ▶ Understanding how the Council continues to deliver services in the context of reduced funding, and recording and assessing these arrangements

Our audit approach

To update our understanding of the Council's arrangements in respect of the above key areas, we will:

- ▶ Meet relevant officers to discuss the underpinning arrangements and outcomes.
- ▶ Review relevant minutes and key documents.
- ▶ Review relevant internal audit reports and working papers.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- i) financial statements; and
- ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We will also review and report to the NAO, to the extent and in the form required by them, on your Whole of Government Accounts return

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

We have identified the material income and expenditure systems; documented and walked through these systems and controls to ensure we understand the systems that generate the material balances and disclosures in the Council's financial statements.

- ▶ Where possible we are seeking to rely on the controls in the systems and will test these in line with our audit methodology.
- ▶ Working with internal audit – we are working closely with internal audit and we are seeking to place maximum reliance on their work wherever possible. Internal audit have provided us with results of all their relevant testing to date.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- accounts receivable
- accounts payable/procure to pay
- business rates
- council tax
- cash and bank/cash receipting
- housing benefits
- housing rents
- payroll.

We have also identified the following key processes that we will test substantively post year-end:

- property, plant and equipment
- pensions
- treasury management
- financial statements close process.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll, cash payments and receipts and journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit

We will continue to review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, where issues are raised that could impact the year-end financial statements.

Use of experts

We will utilise specialist Ernst & Young resource, as necessary, to help us to form a view on judgments made in the financial statements.

In addition to the key areas outlined in sections 2 and 3, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on

In addition to the financial statement risks outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

- ▶ Addressing the risk of fraud and error.
- ▶ Significant disclosures included in the financial statements.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements within our Value for Money conclusion.

4.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We have determined that overall materiality for the financial statements of the Council is £2,344,000, which is based on 2% of gross revenue expenditure.

We will communicate uncorrected audit misstatements greater than £117,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

4.4 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. The indicative fee scale for the audit of the Council is £73,076.

4.5 Your audit team

The engagement team is led by Helen Thompson (Director), who has significant local government experience. Helen is supported by Malcolm Haines (Manager) who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Accountancy Manager.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts; and the deliverables we have agreed to provide to you through the Audit Committee cycle in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We will provide a formal report to the Audit Committee in September 2014 incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Audit Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning:	December 2013	June 2014	Audit Fee letter
Risk assessment and setting of scopes	January 2014	June 2014	Audit Plan
Testing of routine processes and controls	February/March 2014	June 2014	
Year-end audit	July/August 2014	September 2014	Report to those charged with governance Draft 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). Draft audit completion certificate
	Oct/November 2014	November 2014 Cabinet meeting	Annual Audit Letter
Grant certification	July to October 2014	January 2015	Report to those charged with governance (grant claim certification)

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

There are no self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson and the engagement team and the audit engagement team have not been compromised.

5.3 Other required communications

Ernst & Young has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 28 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14	Actual Fee 2013/14
	£'000	£'000
Total Audit Fee – Code work	73,076	73,076
Certification of claims and returns*	8,101	8,700
Total audit fee	81,177	81,776

*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission. This fee will be subject to review during the certification period.

The agreed fee presented above is based on the following assumptions:

- ▶ officers meet the agreed timetable of deliverables;
- ▶ we are able to place reliance, as planned, on the work of internal audit;
- ▶ the level of risk in relation to the audit of accounts is consistent with that in the prior year;
- ▶ no significant changes are made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- ▶ our accounts opinion and use of resources conclusion is unqualified;
- ▶ appropriate quality of documentation is provided by the audited body; and
- ▶ an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

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

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Report to those charged with governance
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Report to those charged with governance

Required communication	Reference
<p>Independence Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Plan Report to those charged with governance</p>
<p>Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Report to those charged with governance</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Report to those charged with governance</p>
<p>Certification work</p>	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>
<p>Fee Information</p>	<p>Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary</p>

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