

New Forest District Council

Audit Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

26 September 2014



■ Helen Thompson, Director
■ HThompson2@uk.ey.com

■ Malcolm Haines, Manager
■ MHaines@uk.ey.com

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Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 26 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well and in compliance with the Code.

Value for money

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

Whole of Government Accounts

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements.
- Report on any exception on the governance statement or other information included in the foreword.
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion).

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

As a component auditor, we also follow the group instructions issued by the National Audit Office, and send them our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p>1. The previous business rates (national non domestic rates - NNDR) system was based on receipts and payments accounting rather than accrual accounting. However, on transfer to the new NNDR scheme 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. 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 scheme, 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. 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 focused 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 in line with the Code guidance. 	<p>We assessed the provision against the requirements of 'IAS 37 – Provisions, Contingent Liabilities and Contingent Assets' and found that it was compliant with the requirements of the accounting standard. We also assessed management's expertise in formulating the provision and found this to be of a good standard.</p> <p>We audited the business rate balances in the Collection Fund and found them to comply with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2013/14'.</p>
<p>2. 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>Our approach focused 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. 	<p>We substantively tested all significant accounting entries prepared around the year end, as well as all material system journals prepared throughout the year. We also tested all journals prepared by management for accuracy and correctness. We found no evidence of management bias or override.</p>

Addressing audit risks

Other audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit Risk identified within our Audit Plan	Audit Procedures performed	Assurance gained and issues arising
Other audit risks		
<p>1. 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 focused 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. 	<p>We carried out the procedures and substantive tests as planned and found that the valuations in the accounts had been prepared by a properly qualified professional in line with all industry requirements and the 'Code of Practice on Local Authority Accounting in the United Kingdom 2013/14'.</p>
<p>2. 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 focused 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 including authorisation, segregation of duties; and • substantively testing transactions at year end for accuracy and completeness. 	<p>We assessed the adequacy of the service provider and found it to have the necessary expertise to carry out treasury management transactions on behalf of the Council.</p> <p>Substantive testing of treasury transactions found them to accurate and prepared within an effective set of internal financial controls.</p>

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

The following areas of our work programme remain to be completed:

- Receipt of a Letter of Representation following the Audit Committee.

Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Misstatements

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

Corrected Misstatements

Our audit identified a number of minor misstatements and inconsistencies which were highlighted to management for amendment. All of these have been corrected during the course of our work and we do not consider any of these to be significant and therefore we have not provided further details of these corrected misstatements.

Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- Businesses and local tax payers can apply for discounts based upon their circumstances, e.g. being a single parent. We found that awards of Council Tax and Business Rate discounts were correctly calculated and accounted for, but individual awards were not always well supported with appropriate evidence.
- In our audit planning and interim audit a small number of financial reconciliations did not demonstrate clear evidence of review (Housing Benefits, Rents). However, our year end audit found reconciliations to be accurate and adequately reviewed.

Financial statements audit

Issues and misstatements arising from the audit

Other Matters continued...

- It is the professional judgement of the Council that changes to the 2013/14 pensions accounting standard have no material effect on either the primary financial statements or to the reader of the accounts. It has therefore chosen not to re-state the prior year pension accounting entries. We are bringing this to your attention because, had it done so, four figures on the face of the primary financial statements, and in Note 42, would have changed by figures exceeding our audit materiality of £2 million. There is, however, no net impact on the balance sheet or the bottom line of the Comprehensive Income and Expenditure Statement.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We have requested no representations in addition to the standard list.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We are currently completing our work in this area and will report any matters that arise to the Audit Committee.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that New Forest District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criterion 1 - Arrangements for securing financial resilience

- ▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*

We did not identify any significant risks in relation to this criterion based upon our review of:

- ▶ the Council's risk management procedures and risks registers;
- ▶ 2014/15 budget setting in response to the 2013 local government settlement; and
- ▶ the medium term financial plan.

We have no issues to report in relation to this criterion. We assessed the Council's Medium Term Financial Plan and found that the Council is in a good position to deliver balanced budgets up until March 2017, without significant contributions from reserves.

Criterion 2 - Arrangements for securing economy, efficiency and effectiveness

- ▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*

We did not identify any significant risks in relation to this criterion based upon:

- ▶ a review of the Audit Commission's VFM profiles; and
- ▶ assessing the Authority's ability to deliver services in the medium term with reduced funding.

We have no issues to report in relation to this criterion. Our work focused on the Council's budget setting processes and ability to set balanced budgets within the current spending constraints, without detrimentally affecting service provision. We found that the Council operates well in this context and has the expertise to set realistic budgets whilst continuing to provide its statutory functions.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 2 June 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent, and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 26 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements was set out in our Audit Plan dated 2 June 2014.

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee – Code work	73,076	73,076	-
Certification of claims and returns	8,101	8,101	-
Non-audit work	0	0	-

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Ernst & Young LLP

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

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

