

# New Forest District Council

Year ending 31 March 2014

Annual Audit Letter

October 2014





Building a better  
working world

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The Members of New Forest District Council  
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Hampshire  
SO43 7PA

14 October 2014

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 of New Forest District Council in the following report:

2013/14 Audit Results Report for New Forest District Council Issued 26 September 2014

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

We 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 Annual Audit Letter 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 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 2 June 2014 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 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 2014 in accordance with International Standards on Auditing (UK & Ireland).	On 26 September 2014 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 26 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	On 26 September 2014 we issued our report to the Authority.
Report to the National Audit Office on the accuracy of 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 26 September 2014.
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.	No issues to report.



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

No issues to report.

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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.

On 26 September we issued our audit completion certificate.

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 will issue our annual certification report to those charged with governance for 2013/14 upon completion of our grants work.

## 2. Key findings

### Financial statements 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 26 September 2014.

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 were:

#### Significant risk 1: NNDR appeals provision

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##### Issue:

The previous business rates (national non domestic rates) system was based on receipts and payments accounting rather than accrual accounting. However, on transfer to the new business rates 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 affected all primary financial statements and we identified a potential risk for material error at all billing authorities.

##### Audit findings

We assessed the provision against the requirements of 'International Accounting Standard 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. We audited the business rate disclosures in the Collection Fund and found them to comply with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2013/14'.

#### Significant risk 2: Risk of management override

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##### Issue:

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. This risk is inherent across all local government bodies and we do not consider the risk to be greater at New Forest District Council than any other local government body.

##### Audit finding:

We substantively tested all significant accounting entries prepared around the year end, as well as all material system journals prepared throughout the year.. We found no evidence of management bias or override.

#### Other key findings

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**Asset valuations** - A new RICS (Royal Institute of Chartered Surveyors) officer was 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. We carried out 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'.

**Treasury management arrangements** - From 1 March 2014, the Council's treasury management arrangements were contracted to Hampshire County Council. Whilst we had no specific concerns with the provider, a change to a material accounting system creates an inherent risk of misstatement.

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. Substantive testing of treasury transactions found them to be accurate and recorded within an effective set of internal financial controls.

**Council tax and business rates discounts** - 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.

**Pensions accounting** - It is the professional judgement of the Council that changes to the 2013/14 pensions accounting standard had no material effect on either the primary financial statements or to the reader of the accounts. It therefore chose not to re-state the prior year pension accounting entries. If the restatement had been made, 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. However, there was no net impact on the balance sheet or the bottom line of the Comprehensive Income and Expenditure Statement. We asked the Council to provide specific management representations on this matter.

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## 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 2013/14 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 26 September 2014. Our audit did not identify any significant matters that we need to report to you.

## Objections received

We did not receive any questions or objections to the 2013/14 accounts from members of the public.

## Whole of government accounts

We reported to the National Audit office on 26 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

We did not identify any areas of concern.

## 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.

## **Certification of grants claims and returns**

We certify two claims worth £45.7 million. The departmental deadline for this claim is 30 November 2014 and we plan to report our Annual Certification Report for 2013/14 to those charged with governance in December 2014.

## **Use of other powers**

We identified no issues during our audit that would necessitate using powers under the Audit Commission Act 1998, including reporting in the public interest.

### 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 is not designed to express an opinion on the effectiveness of internal control we are required to communicate to those charged with governance at the Authority any significant deficiencies in internal control.

We identified no internal control deficiencies of sufficient importance to merit being reported to you.



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