

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: FRIDAY, 27 JANUARY 2017, AT 10.00 A.M.*

Place: COMMITTEE ROOM 1, APPLETREE COURT,
LYNDHURST

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PUBLIC PARTICIPATION:

*Members of the public may speak in accordance with the Council's public participation scheme:

- (a) immediately before the meeting starts, on items within the Committee's terms of reference which are not on the public agenda; and/or
 - (b) on individual items on the public agenda, when the Chairman calls that item.
- Speeches may not exceed three minutes. Anyone wishing to speak should contact the name and number shown above.

Bob Jackson
Chief Executive

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This Agenda is also available on audio tape, in Braille, large print and digital format

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 23 September 2016 as a correct record.

2. DECLARATIONS OF INTEREST

To note any declarations of interest made by members in connection with an agenda item. The nature of the interest must also be specified.

Members are asked to discuss any possible interests with Democratic Services prior to the meeting.

3. PUBLIC PARTICIPATION

To note any issues raised during the public participation period.

4. SUMMARY STRATEGIC RISK REGISTER (Pages 1 - 6)

To consider the revised risk register.

5. TREASURY MANAGEMENT STRATEGY 2017/18 (Pages 7 - 28)

To consider the treasury management report.

6. EXTERNAL AUDITOR - ANNUAL AUDIT LETTER (Pages 29 - 52)

To receive the external auditor's annual audit letter for the year ended 31 March 2016.

7. EXTERNAL AUDITOR (Pages 53 - 72)

To receive the external audit plan for 2016/17.

8. CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015/16 (Pages 73 - 80)

To note the certification of claims and returns annual report for 2015/16.

9. INTERNAL AUDIT - PROGRESS AGAINST THE 2016/17 AUDIT PLAN (Pages 81 - 90)

To receive the internal audit progress report against the Audit Plan 2016/17.

10. FUTURE EXTERNAL AUDIT APPOINTMENT (Pages 91 - 100)

To consider further arrangements for the appointment of external auditors for 5 years commencing 1 April 2018.

11. AUDIT COMMITTEE WORK PLAN (Pages 101 - 102)

To consider the Audit Committee's Work Plan.

12. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

To:

Councillors:

A D O'Sullivan (Chairman)
J G Ward (Vice-Chairman)
W G Andrews
M R Harris

Councillors:

J D Heron
Mrs E L Lane
R A Wappet
C A Wise

STRATEGIC RISK REGISTER

1. INTRODUCTION AND PURPOSE

- 1.1 In 2013 Cabinet approved a Risk Management Strategy that set out the council's intentions and approach to good risk management in a pragmatic and proportionate way. Cabinet and the Audit Committee also receive annually a revised strategic risk register that reflects the significant risks to the achievement of the council's priorities.
- 1.2 The introduction of Our Corporate Plan 2016-2020 necessitated a review of the strategy and a revised strategic risk register that reflects the most significant risks to the council achieving the priorities set out in the new plan. This was presented to Cabinet for approval in November 2016 and is now presented to the Audit Committee for consideration.
- 1.3 Our Corporate Plan, Delivery Plan approved by Cabinet in February 2016 recognises that government funding remains a key issue looking forward with a likely further 11.7% reduction in the budget from 2016 over the next four years. Any future plans must address this major challenge and the priorities within the corporate plan are all underpinned by the financial commitment to 'living within our means'. Consequently this remains the overriding risk.
- 1.4 Collaboration is also a key feature for future service delivery and the ongoing devolution discussions will be appraising options to work with others to achieve more.

2. BACKGROUND

- 2.1 Risk management aims to identify the significant risks that may impact on the Council achieving its objectives. Its purpose is to evaluate, design and implement effective measures to reduce both the likelihood and potential impact of these risks occurring.
- 2.2 The Council has a statutory responsibility to have in place arrangements for managing risks under the Accounts and Audit Regulations 2003 which require a sound system of internal control which facilitates the effective exercise of the body's functions and includes arrangements for the management of risk. As such it features strongly in the Council's Local Code of Practice for Corporate Governance and is one of the primary assurance strands in the Annual Governance Statement which places significant reliance on a robust risk management framework.

3. RISK MANAGEMENT FRAMEWORK

- 3.1 The Council's Risk Management framework is made up of a number of elements largely embedded in existing processes. In addition to strategic risk management, illustrated through the Strategy and Strategic Risk Register, it includes work place health and safety, ICT disaster recovery, business continuity planning and operational risk management including the provision of third party insurance cover and claims handling.

- 3.2 Risk is also considered as part of service and budget planning with resource plans giving consideration to challenges for each portfolio.
- 3.3 Appendix 1 presents the shortened Risk Management Strategy agreed by Cabinet. Although reviewed to ensure its continued relevance and content accuracy the strategy remains largely unchanged as an accessible and proportionate document that clearly sets out the council's intentions and approach to risk management.

4. STRATEGIC RISK REGISTER

- 4.1 The revised Strategic Risk Register (Appendix 2) summarises the most significant risks to the delivery of Our Corporate Plan and the proposed actions to mitigate these risks. The mitigation offered is closely aligned to portfolio resource and service plans and in some cases relies on working with partners to help achieve the objectives. Other service specific risks and their analysis are considered in individual Service Risk Registers.
- 4.2 The Strategic Risk Register will be considered and updated annually alongside the performance management framework.

5. FINANCIAL IMPLICATIONS

- 5.1 There are none arising directly from this report although 'living within our means' remains the overriding risk.

6. EQUALITY & DIVERSITY, ENVIRONMENTAL AND CRIME & DISORDER IMPLICATIONS

- 6.1 There are none arising directly from this report.

7. RECOMMENDATIONS

It is recommended that the Committee:

- 7.1 Consider and note the revised strategic risk register at Appendix 2.

For Further Information Please Contact:

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Customer Services
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Email: rebecca.drummond@nfdc.gov.uk








Background Papers:

Cabinet 02/11/2016 Report (Strategic Risk Register)
Audit Committee 26/09/14 Report (Strategic Risk Register)
Cabinet 04/09/13 Report B (Risk Management Strategy and Strategic Risk Register)

RISK MANAGEMENT STRATEGY

1		New Forest District Council actively manages risk in order to contribute to meeting its objectives and statutory obligations. The Council will use this strategy as a tool to promote innovation and safeguard against threats in support of the Corporate Plan
2		Definition – Risk is an event or uncertainty that may enhance (an opportunity) or impede (a threat to) the Council's ability to achieve one or more of its objectives effectively
3		Risk Identification - Strategic risks will be identified against corporate challenges and priorities within the corporate plan. Operational risks will be identified within the day to day issues that managers and staff encounter
4		Risk Analysis - Risks will be analysed to determine the frequency/likelihood of an adverse event or outcome occurring and the impact/severity if it did occur. They will then be prioritised for action. Risks will also be analysed to support strategic policy decisions and financial planning within reports
5		Risk Control - To mitigate against identified risks the Council will opt to control the risk by taking action to manage the likelihood and/or impact down, to accept the risk, to transfer the risk through insurance or contractual arrangements or terminate the risk by ending the activity or taking the decision not to do something
6		Risk Recording - Risks will be recorded in a series of risk registers. Risks to the achievement of the Corporate Plan will be contained by Portfolio in the Strategic Risk Register and service specific risks recorded in the relevant Service's register. In the case of significant projects the Project Manager will ensure that risks are considered in line with the Council's Project Management Guide
7		Risk Monitoring and Reporting - As far as possible Risk Management is embedded within existing practices and aligned to the Performance Management Framework. The Strategic Risk Register will be reported annually to Cabinet. The effectiveness of the risk management framework will be reported annually to the Audit Committee within the annual audit and assurance report
8		Roles and Responsibilities - Elected Members have a responsibility to understand the strategic risks that the Council faces and will be made aware of how these risks are being managed through the annual performance process. The Audit Committee is responsible for monitoring the development and operation of Risk Management. Officers are responsible for the delivery of the strategy
9		Guidance and Review - Detailed guidance in support of the Council's Risk Management arrangements is available to Members and Officers and the Risk Management Framework will be kept under review
10		Contacts – There are several strands to the Council's overall approach to Risk Management. In addition to strategic Risk Management it includes workplace health & safety, ICT disaster recovery, business continuity and operational risk management which includes the provision of insurance cover. For more information on any of these activities contact the Performance Management Team

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Portfolio	High Risk Areas Identified	Corporate Plan Priority	To Mitigate these risks the Council will:
<p>Leader's</p>	<p>Economic and demographic conditions limit growth and employment in the district and local business fails to prosper</p>	 <p><i>Helping local business grow</i></p>	<ul style="list-style-type: none"> Review with partners, including the New Forest Business Partnership, the best way to support local businesses in the future Work with the relevant Local Enterprise Partnerships (LEPs) to the benefit of the district Develop the new local plan
<p>Finance & Efficiency</p>	<p>Continued pressure on council finances results in an inability to deliver priorities and services</p>	 <p><i>Living within our means</i></p>  <p><i>Service outcomes for the community</i></p>	<ul style="list-style-type: none"> Develop a Medium Term Financial Plan that delivers the Council's priorities Develop and undertake a programme of service reviews to ensure value for money and fundamentally assess delivery options Introduce stabilisation targets to manage budgets within existing resources Adopt an asset management strategy that optimises asset use and identifies revenue opportunities
<p>Housing & Communities</p>	<p>Unable to provide more housing to help meet the needs of the district</p>	 <p><i>More homes for local people</i></p>  <p><i>Working with others to achieve more</i></p>  <p><i>Service outcomes for the community</i></p>	<ul style="list-style-type: none"> Develop the new local plan identifying sites for housing development Develop the Housing Strategy to include meeting future needs through remodelling of existing stock, stock acquisition and building Continue to work with partner Registered Providers to deliver additional homes in the District
<p>Health & Leisure</p>	<p>Health and wellbeing needs of residents are not met</p>	 <p><i>Service outcomes for the community</i></p>	<ul style="list-style-type: none"> Fundamentally review and challenge existing health and leisure arrangements to maximise outcomes for the council and the customer in the longer term

Environment

Unable to protect the natural beauty of the coastline and safeguard local residents



Protecting the local character of our place



Service outcomes for the community

- Continue to review and update a coastal maintenance programme identifying priority projects
- Undertake agreed coastal maintenance studies and work with elected members to identify alternative sources of funding

Planning & Transportation

External pressure for development fails to recognise and protect the special and unique character of the New Forest



Protecting the local character of our place

- Develop and approve a new local plan which fully reflects the requirements of the National Planning Policy Framework

AUDIT COMMITTEE – 27 JANUARY 2017

TREASURY MANAGEMENT STRATEGY REPORT 2017/18

1. INTRODUCTION

The Prudential Code for Capital Finance in Local Authorities (The Code) was introduced with effect from 1 April 2004. The Code gives the Council greater freedom for future capital investment plans but requires it to set and monitor prudential indicators to ensure that its plans are affordable and sustainable.

This report outlines and recommends the Council's prudential indicators for 2017/18 – 2019/20 that relate to the Treasury Management Function and sets out the expected treasury operations for that period.

A further report detailing the prudential indicators for 2017/18 – 2019/20 relating to Capital Expenditure will be included in a separate report to Cabinet on 1 February 2017.

2. POLICIES AND APPROVALS REQUIRED

2.1. Treasury Management Strategy Statement

The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three year period from 2017/18 to 2019/20. The day to day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.

There are a number of target indicators but the indicator that must not be breached is the Authorised Limit for External Debt. This is the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term.

This report has been prepared prior to the finalisation of the Capital Programme for 2017/18 and subsequent years. Therefore the target indicators may be subject to minor variation. Should any increase result in the likelihood of the approved Authorised Limit for External Debt being breached this will be reported at Cabinet in February 2017. Other indicators are targets only and minor adjustments will not be reported.

2.2. Investment Strategy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

The investment strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

This strategy is shown in Annex A in Section 5.

The above policies and parameters provide an approved framework within which officers undertake the day to day treasury activities.

The Investment Strategy will take effect from 20 February 2017.

3. ENVIRONMENTAL IMPLICATIONS

3.1. There are no environment implications arising from this report.

4. CRIME AND DISORDER IMPLICATIONS

4.1. There are no crime and disorder implications arising from this report.

5. RECOMMENDATIONS

The Audit Committee is recommended to request Council to approve the key element of this report from 20 February 2017:

5.1. The Treasury Management Strategy 2017/18 to 2019/20 and the Treasury Indicators contained within Annex A.

TREASURY MANAGEMENT STRATEGY 2017/18 – 2019/20

1. INTRODUCTION

- 1.1. In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.
- 1.2. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.
- 1.3. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4. The Council has potentially large exposures to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

2. External Context

2.1. Economic background

The major external influence on the Council's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of leaving the single market has dented business confidence and resulted in a delay in new

business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

2.2. Credit outlook

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however continue to fall.

2.3. Interest rate forecast

The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. A negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

3. Balance Sheet summary and forecast

- 3.1. On 31st December 2016, the Council held £144.2m of borrowing and £77.8m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance Sheet Summary and Forecast	31/03/16 Actual £m	31/03/17 Estimate £m	31/03/18 Forecast £m	31/03/19 Forecast £m	31/03/20 Forecast £m
General Fund (GF) CFR	3.2	3.4	3.9	4.4	5.8
Housing Revenue Account (HRA) CFR	1.9	1.9	1.9	1.9	1.9
HRA settlement	142.7	142.7	138.6	134.5	130.4
Total CFR	147.8	148.0	144.4	140.8	138.1
Less: External borrowing *	(144.3)	(144.1)	(139.8)	(135.5)	(131.2)
Internal (over) borrowing	3.5	3.9	4.6	5.3	6.9
Less: GF Usable reserves	(18.5)	(17.8)	(17.8)	(17.9)	(18.2)
Less: HRA Usable reserves	(24.0)	(26.8)	(23.6)	(14.6)	(14.3)
Less: Working capital	(13.3)	(5.4)	(1.3)	(1.3)	(1.3)
Resources for investments	(55.8)	(50.0)	(42.7)	(33.8)	(33.8)
New borrowing (or investments)	(52.3)	(46.1)	(38.1)	(28.5)	(26.9)

* shows only loans to which the Council is committed and excludes optional refinancing

- 3.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 3.3. The £77.8m investment balance referred to in para 3.1 significantly differs to the £46.1m estimated balance as at 31/03/17 predominantly because of cash flow differences to Council Tax and Business Rate Collections over the period January - March. The level of usable HRA reserves is set to decrease over the period as the Council works towards achieving its latest acquisition and development strategy, as well as commencing with principal repayments on the settlement loan. Working capital balances are estimated to decrease over the period due to the likely call on specific provisions.
- 3.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2017/18.

4. Borrowing Strategy

4.1. The Council currently holds £144.2 million of loans, a decrease of £0.2 million on the previous year, with the majority of the loan related to the HRA refinancing settlement from 2012. The balance sheet forecast in Table 1 shows that the Council does not expect to need to borrow in 2017/18. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £174.4 million.

4.2. Objectives

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.3. Limits

The Council is required to put in place the following Prudential Indicators to control its limits on borrowing; these are operational and authorised boundaries for external debt, and the maximum HRA debt limit.

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Table 2: Operational Boundary	2016/17 Revised £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m
Total Debt	163.0	159.4	155.8	153.1

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 3: Authorised Limit	2016/17 Revised £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m
Total Debt	178.0	174.4	170.8	168.1

Maximum HRA Debt Limit

The Council is also limited to a maximum HRA CFR through the HRA self-financing regime. The Council may not borrow more than this limit for HRA purposes.

This limit is dictated by the DCLG and is based on the amount of the settlement payment of £142.7m plus the old Housing Subsidy Notional Debt amount of £12.8m, plus any further borrowing approved by the DCLG. The Council is not currently planning to seek further approvals to increase HRA borrowing and therefore actual total borrowing for the HRA is currently predicted to remain at £142.7m until 2017/18.

Table 4: HRA Debt Limit	2016/17 Revised £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m
Total	155.5	155.5	155.5	155.5

4.4. Strategy

Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, if the Council does not need to borrow, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By internally borrowing, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis.

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

4.5. Sources:

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- UK local authorities
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hampshire Pension Fund)

- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.

4.6. Short-term and Variable Rate loans

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators at section 6 of this strategy.

4.7. Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. Investment Strategy

5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £54.7 and £86.1 million; balances are expected to reduce significantly over the next three years, mainly due to the reduction in HRA usable reserves, as shown in Table 1.

5.2. Objectives

Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or

yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3. Negative Interest Rates

If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

5.4. Strategy

Given the increasing risk and falling returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for the estimated £25m that is available for longer-term investment. Approximately 59% (increased from 48% last year) of the Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, corporate bonds, pooled property and equity funds, and secured bank bonds. Whilst the remaining cash is subject to bail-in risk, 63% of this balance is held overnight money market funds which are subject to a reduced risk of bail-in, 29% is held in certificates of deposit which can be sold on the secondary market, and 2% is held in overnight call accounts with banks to allow for liquidity. The remaining 6% of cash subject to bail-in risk is held in short-term notice accounts which produce a significant return commensurate with the bail-in risk. This diversification will represent a continuation of the new strategy adopted in 2015/16.

5.5. Investments Targeting Higher Returns

In order to protect the Council's cash balances against the risk of negative or low interest rates, and the effect of bail-in, as well as to preserve the Council's income generated from investments, it is proposed that the Treasury Management Strategy have the flexibility to invest up to £20m targeting higher yielding investments. This amount represents the Council's core stable cash balance and is therefore an amount that can be managed appropriately as a long-term investment.

Higher yields can be accessed through long-term cash investments (although this is currently less the case as yields have declined) and investments in other assets than cash, such as pooled property, equities and bonds. Non-cash pooled investments must be viewed as long-term investments in order that monies are not withdrawn in the event of a fall in capital values to avoid crystallising a capital loss.

As shown in Appendix B of this report, as at 31 December 2016 the Council has invested £4.4m which could be classed under this allocation of investments targeting higher returns. In addition, the Council has committed a further £0.6m to investments in pooled funds. Without this allocation the weighted average return of the Council's cash investments would have been 0.58%; the higher yielding investments have added 0.27% (£210,000 based on the cash balance at 31 December 2016) to the average interest rate earned by the remainder of the portfolio.

5.6. Investment Limits

Given the impact of the Bank Reform Act, Bank Recovery and Resolution Directive, and the recast Deposit Guarantee Schemes Directive, which have increased the credit risk that unsecured bank investments could be 'bailed-in', the following investment limits are proposed to mitigate the risk whilst allowing sufficient flexibility to manage the Council's investment balances.

Table 5: Investment Limits	Cash limit
Any single organisation, except the UK Central Government	£8m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£8m per group
Any group of pooled funds under the same management	£8m per manager
Registered Providers	£6m in total
Money Market Funds	50% in total

5.7. Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 6 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 6: Approved Investment Counterparties and Limits						
Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers Unsecured	Registered Providers Secured
UK Govt	n/a	n/a	£ Unlimited 30 years	n/a	n/a	n/a
AAA	£4m 5 years	£8m 20 years	£8m 30 years	£4m 20 years	£4m 20 years	£4m 20 years
AA+	£4m 5 years	£8m 10 years	£8m 25 years	£4m 10 years	£4m 10 years	£4m 10 years
AA	£4m 4 years	£8m 5 years	£8m 15 years	£4m 5 years	£4m 10 years	£4m 10 years
AA-	£4m 3 years	£8m 4 years	£8m 10 years	£4m 4 years	£4m 10 years	£4m 10 years
A+	£4m 2 years	£8m 3 years	£4m 5 years	£4m 3 years	£4m 5 years	£4m 5 years
A	£4m 13 months	£8m 2 years	£4m 5 years	£4m 2 years	£4m 5 years	£4m 5 years
A-	£m 6 months	£8m 13 months	£4m 5 years	£4m 13 months	£4m 5 years	£4m 5 years
BBB+	£2m 100 days	£4m 6 months	£2m 2 years	£2m 6 months	£2m 2 years	£2m 2 years
None	£1m 6 months	n/a	£4m 25 years	n/a	£4m 5 years	£4m 25 years
Pooled funds	£8m per fund					

This table must be read in conjunction with the notes below

5.8. Credit Rating

Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.9. Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

5.10. Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.11. Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 30 years.

5.12. Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

5.13. Registered Providers

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

5.14. Pooled Funds

Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Depending on the type of pooled fund invested in, it may have to be classified as capital expenditure. Because these funds have no defined maturity

date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.15. Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.16. Other Information on the Security of Investments

The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

Based on the available information and the advice of the Council's advisers, Arlingclose, the investment limits shown in Table 5 and 6 may be reduced, and investing with certain counterparties may be suspended as necessary.

If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.17. Specified Investments

The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.

The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

5.18. Non-specified Investments

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, (i.e. those that are due to mature 12 months or longer from the date of arrangement), pooled funds that the Council intends to hold as long-term investments (for more than one year) and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Table 7 below.

Table 7: Non-Specified Investment Limits	Cash limit
Total long-term investments	£25m
Total investments without credit ratings or rated below A- (excluding investments with other local authorities)	£20m
Total non-Sterling investments	£0m
Total investments in foreign countries rated below AA+	£0m
Total non-specified investments	£30m*

* Total non-specified investments is a limit in its own right, and is not meant to equal the aggregate of the limits for total long-term investments, and total investments without credit ratings or rates below A-.

5.19. Liquidity Management

The Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Council's medium term financial position (summarised in Table 1) and forecast short-term balances.

6. Treasury Management Indicators

6.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

6.2. Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of principal borrowed or invested will be:

Table 8: Interest Rate Exposures	2017/18	2018/19	2019/20
Upper limit on fixed interest rate investment exposure	£25m	£25m	£25m
Upper limit on variable interest rate investment exposure	£90m	£90m	£90m
Upper limit on fixed interest rate borrowing exposure	£174.4m	£170.8m	£168.1m
Upper limit on variable interest rate borrowing exposure	£174.4m	£170.8m	£168.1m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

6.3. Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 9: Maturity Structure of Borrowing	Upper	Lower
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	25%	0%
10 years and above	100%	0%

6.4. Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 10: Principal Sums Invested for Periods Longer than 364 days	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£25m	£25m	£25m

7. Other Items

7.1. There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

7.2. Policy on Use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

7.3. Policy on Apportioning Interest to the HRA

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the average % Local Authority 7 day rate.

7.4. Investment Training

The needs of Hampshire County Council's treasury management staff delivery services to New Forest District Council, for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff members regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff members are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

CIPFA's Code of Practice requires that the Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All members were invited to a workshop presented by Arlingclose on 29 November 2016, which gave an update on treasury matters. A further Arlingclose workshop has been planned for 29 November 2017.

7.5. Investment Advisers

The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with Arlingclose.

7.6. Investment of Money Borrowed in Advance of Need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the

Council's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £174.4 million.

ARLINCLOSE ECONOMIC & INTEREST RATE FORECAST NOVEMBER 2016**Underlying assumptions:**

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.
- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Ave
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.40
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.18
Arlingclose Central Case	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.34
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.60	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90	0.65
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.24
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.50	0.40	0.35	0.35	0.35	0.40	0.40	0.40	0.45	0.50	0.55	0.60	0.65	0.45
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.47
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.15	0.95	0.85	0.85	0.85	0.85	0.85	0.90	0.95	1.00	1.05	1.10	1.15	0.96
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.47
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.70	1.50	1.40	1.40	1.40	1.40	1.40	1.45	1.50	1.55	1.60	1.65	1.70	1.75
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.60	1.40	1.30	1.30	1.30	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.60	1.41
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57

EXISTING INVESTMENT & DEBT PORTFOLIO POSITION AT 31 DECEMBER 2016

Investments Duration to maturity	Overnight	<1 year	>1 year	Total	Average rate/yield	Average life
	£m	£m	£m	£m	%	(years)
<i>Subject to bail-in risk</i>						
Bank call accounts	0.5	0.0	0.0	0.5	0.20%	0.0
Bank notice accounts	2.0	0.0	0.0	2.0	0.80%	0.3
Certificates of deposit ¹	0.0	9.0	0.0	9.0	0.40%	0.1
Money market funds ²	20.0	0.0	0.0	20.0	0.27%	0.0
	22.5	9.0	0.0	31.5	0.34%	0.1
<i>Exempt from bail-in risk</i>						
Covered floating rate notes	0.0	12.5	6.5	19.0	0.65%	1.0
Covered fixed bonds	0.0	0.0	2.0	2.0	1.30%	1.3
Corporate floating rate notes	0.0	1.0	0.0	1.0	0.67%	0.1
Corporate fixed bonds	0.0	2.9	0.0	2.9	0.50%	0.2
Local authorities	0.0	14.0	3.0	17.0	0.87%	0.7
	0.0	30.4	11.5	41.9	0.76%	0.8
<i>Targeting higher yields</i>						
Pooled property funds ³	0.0	0.0	3.1	3.1	4.67%	n/a
Pooled equity funds ⁴	0.0	0.0	1.3	1.3	6.93%	n/a
	0.0	0.0	4.4	4.4	5.35%	n/a
Total	22.5	39.4	15.9	77.8	0.85%	0.5

	£m	%
External Borrowing:		
PWLB Fixed Rate	(144.2)	(3.12)
Total Gross External Debt	(144.2)	(3.12)
Investments	77.8	0.85
Net (Debt) / Investments	(66.4)	

¹ Certificates of deposit are financial instruments that have the ability of being sold on the secondary market.

² Money market funds have a reduced risk of bail-in due to the portfolio of investments each fund is invested in.

³ The average rate/yield provided for the pooled property funds is the average income return per annum.

⁴ The Council invested in the pooled equity funds part-way through the year, therefore the average rate/yield is the income return for the investment period, annualised. A more accurate representation of expected income return will be available once the Council are invested for a full year.

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New Forest District Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to New Forest District Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 23 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 September 2016.

In January 2017, we will also issue a report to those charged with governance of the Council summarising the grant certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Helen Thompson
Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the Audit Committee on 23 September 2017, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 18 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ expressing an opinion:
 - ▶ on the 2015/16 financial statements; and
 - ▶ on the consistency of other information published with the financial statements.
- ▶ forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ reporting by exception:
 - ▶ if the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ any significant matters that are in the public interest;
 - ▶ any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ if we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2016.

Our detailed findings were reported to the 23 September 2016 Audit Committee.

The key issue identified as part of our audit was as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>Our review of accounting estimates has found that estimates are reasonable, and there was no indication of bias in the calculation of the estimates.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override from the work we completed.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

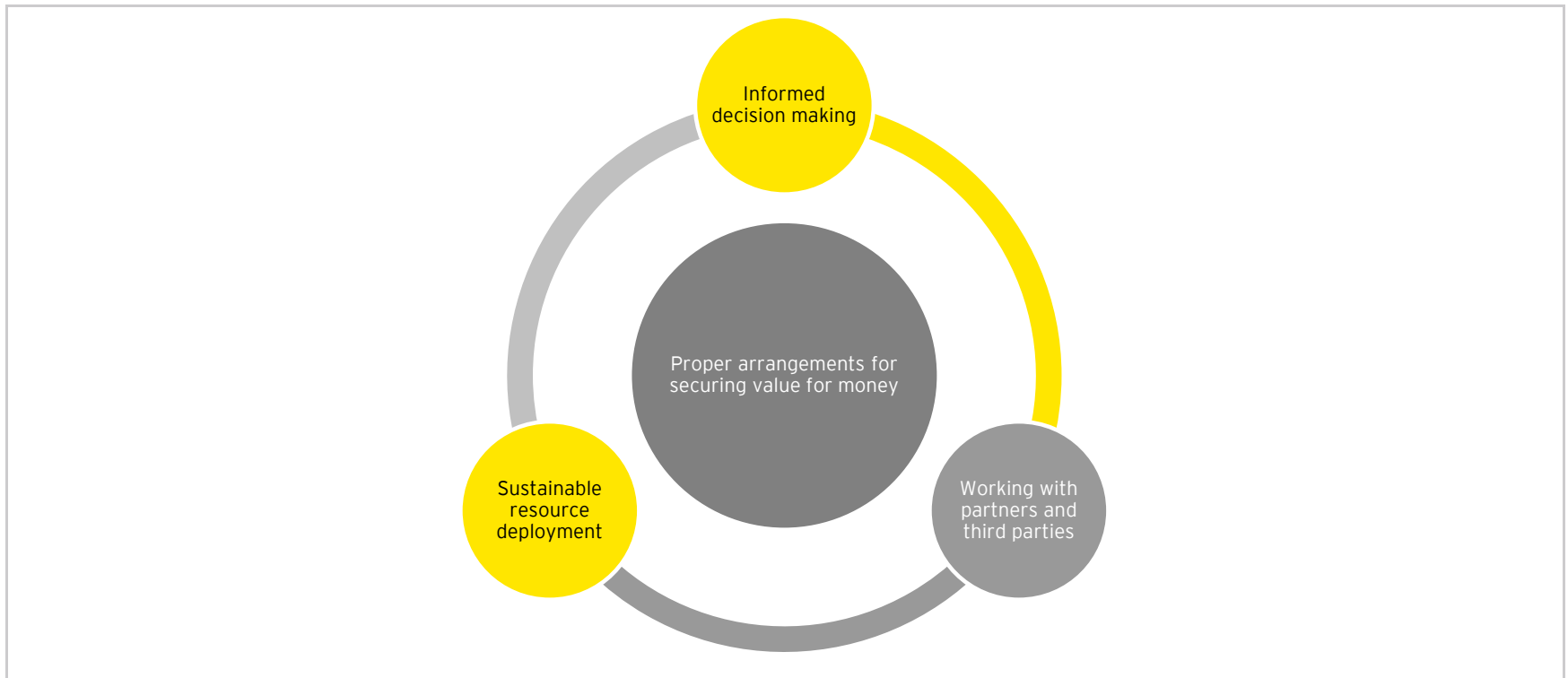
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.



We identified a significant risk in relation to the Council's arrangements to "ensure it deployed resources to achieve planned and sustainable outcomes for taxpayers and local people" as reported in our audit plan. We performed the procedures outlined in our audit plan and the results were reported in our Audit Results Report which we presented to the Audit Committee on 23 September 2016. We did not identify any significant weaknesses in the Council's arrangements.

We therefore concluded that the Council put in place proper arrangements to secure value for money in its use of resources.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council is below the specified audit threshold of £350 million. Therefore we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We did not identify any issues to report.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 23 September 2016. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, 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 are required to communicate to you significant deficiencies in internal control identified during our audit. We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements and which the Council does not know about.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
Faster close	<p>From the 2017/18 financial year, the deadline for preparing the Council's financial statements will move to 31 May from 30 June. In addition, the deadline for completing the statutory audit will move to 31 July from 30 September.</p>	<p>The faster closedown timetable requires the Council to adjust its timetable for preparing the accounts, as well as the budget setting process and the timing of committee meetings.</p> <p>It requires upfront planning to identify areas of the accounts that can be prepared earlier, before the 31 March, and there will be a need to establish robust basis for estimations across a wider number of entries in the financial statements.</p> <p>For the 2016/17 audit, we are working with officers to bring our work forward to support the transition ahead of the new deadlines in 2017/18.</p>
Appointment of auditors	<p>The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments.</p> <p>After this, the Council can exercise choice about whether it decides to opt in to the authorised national scheme, or whether to make other arrangements to appoint its own auditors.</p> <p>In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.</p> <p>PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.</p>	<p>Appointment of auditors for the 2018/19 financial year is required by 31 December 2017.</p> <p>The Council should consider whether it intends to opt into the appointed person scheme to appoint its auditors from 2018/19 or if the Council should make its own arrangements following the legislative requirements.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2015/16 is in line with the fee reported in our Annual Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Total Audit Fee - Code work	55,482	55,482	55,482	55,482
Total Audit Fee - Certification of claims and returns	5,492*	5,492	5,492	5,492

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

* Our work to certify the Housing Benefit claim is ongoing and we will report any additional fee due to any additional work required to quantify errors in the claim in our certification report.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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New Forest District Council

Year ending 31 March 2017

Audit Plan

27 January 2017

Ernst & Young LLP



Members of the Audit Committee
New Forest District Council
Appletree Court
Beaulieu Road
Lyndhurst
SO43

27 January 2017

Dear Committee Members

2016/17 Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. We will present you with an update of progress on our Audit Plan at a subsequent meeting and after our early interim work has been performed.

We welcome the opportunity to discuss this plan with you on 27 January 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

Executive Director

For and behalf of Ernst & Young LLP
Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. 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. Overview

Context for the audit

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of New Forest District Council give a true and fair view of the financial position as at 31 March 2017 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 the Council's 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; and
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and 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.

There has been no change to our assessment of risk since last year.

In parts two and three of this plan we provide more detail on the above areas and we outline our plans to address them. Our proposed audit process and strategy are summarised below and set out in more detail in section four.

We will provide an update to 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 2017.

Our process and strategy

Financial statement audit

We consider materiality in terms of the possible impact of an error or omission on the financial statements and set an overall planning materiality level. We then set a tolerable error to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality to an appropriately low level. We also assess each disclosure and consider qualitative issues affecting materiality as well as quantitative issues.

We will look at the outcome of the work of internal audit in informing our view of how the Council has performed during 2016/17 and in assessing the adequacy of the Council's internal control environment.

Further detail is included in section two of this Audit Plan.

Arrangements for securing economy, efficiency and effectiveness

Our approach to the value for money (VFM) conclusion for New Forest District Council for 2016/17 is based on the approach specified by PSAA. For 2016/17 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

We adopt an integrated audit approach, so our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

Further detail is included in section three of this Audit Plan.

2. Financial statement risks

We outline below our assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly 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.</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; ▶ reviewing accounting estimates for evidence of management bias, and ▶ evaluating the business rationale for significant unusual transactions.

Other risk – Financial statements presentation	Our audit approach
Expenditure and funding analysis and Comprehensive income and expenditure statement	
<p>Amendments have been made to the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code)</i> this year changing the way the financial statements are presented.</p> <p>The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the '<i>Telling the Story</i>' review of the presentation of local authority financial statements.</p> <p>The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.</p> <p>This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code. ▶ Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported. ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

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 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;
- ▶ enquiry of management about risks of fraud and the controls 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 any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified fraud risks.

3. Economy, efficiency and effectiveness

We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness on its use of resources.

For 2016/17 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public.”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risk which we view as relevant to our value for money conclusion.

Significant value for money risk

Our audit approach

Delivery of a sustainable medium term financial plan

The Council has calculated that it has an anticipated reduction in grant funding over the next three year period amounting to some £4.129 million (39% reduction from 2016/17). The summary position for the Medium Term Financial Plan (MTFP), which takes into account all funding and budget assumptions, identifies a:

- balanced budget for 2017/18;
- deficit for 2018/19 of £620,000; and
- cumulative deficit of £809,000 in 2019/20.

The Council's Budget Stabilisation Strategy sets out, for each of the Council's Service Managers, a three year target equivalent to the originally anticipated £2.438m increase in costs. Other savings and income improvements are also expected to materialise over the period, resulting in total forecast savings of £4.129m.

However, there are risks around the delivery of savings and we will review the Council's arrangements for planning a sustainable financial future.

Our approach will focus on:

- reviewing the progress made in achieving the planned budget and required savings for 2017/18;
- assessing whether the Council has good systems and processes in place to manage its financial risks and opportunities effectively; and
- assessing the robustness of financial plans for 2017/18 and in the medium term.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Code of Audit Practice (the Code) our principal objectives are to review and report on the Council's:

- ▶ financial statements; and
- ▶ arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

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 on the Whole of Government Accounts return to the extent and in the form they require.

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 criteria specified by the Code of Audit Practice.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the Council has identified the following key processes which we will walkthrough, during the interim audit, to obtain our understanding of their design and operation:

- ▶ accounts receivable;
- ▶ accounts payable/procure to pay;
- ▶ cash and bank/cash receipting; and
- ▶ payroll.

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

- ▶ property, plant and equipment;
- ▶ pensions;
- ▶ treasury management; and
- ▶ 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 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

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our final reporting, where we raise issues that could have an impact on the year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property, Plant and Equipment	Council's internal valuer and EY valuations team
Pensions	Pension fund actuary and EY's pensions team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Mandatory procedures required by auditing standards

As well as the financial statement risks outlined in section three, we must 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.

Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ reviewing significant disclosures included in the financial statements;
- ▶ reviewing entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ considering and reporting on 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;
- ▶ reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO; and
- ▶ Reviewing and examining, where appropriate, evidence relevant to the Council's corporate performance management and financial management arrangements, and its reporting on these arrangements.

4.3 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. We have initially determined that overall materiality for the Council's financial statements is £2.017 million based on 2% of gross expenditure.

We will communicate uncorrected audit misstatements greater than £101,000 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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

4.4 Fees

The PSAA has published a scale fee for all authorities. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the Code of Audit Practice 2015. The indicative fee scale for the audit of the Council is £55,482 and for the certification of the grants is £4,253.

4.5 Your audit team

The engagement team is led by Helen Thompson (Executive Director), who has significant experience at New Forest District Council. Helen is supported by Justine Thorpe (Audit Manager) who is responsible for the day-to-day direction of audit work and is the key point of contact for the Principal Accountants and Service Manager for Finance and Audit.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the VFM work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with the PSAA rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	January	June 2016	Audit Fee letter
Risk assessment and setting of scopes	February	January 2017	Audit Plan
Testing routine processes and controls	March	January 2017 June 2017	Audit Plan Audit progress update
Year-end audit	June	September 2017	Report to those charged with governance via the Audit Results Report Audit report (including our opinion on the financial statements; and overall value for money conclusion). Audit completion certificate
Completion of audit			Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	July	September 2017	Annual Audit Letter

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 on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during 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 EY including consideration of all relationships between 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 PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy. ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, 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 contracted services, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY has charged to you for the provision of services during the reporting period are disclosed and analysed in appropriate categories.

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 any principal threats. However we have adopted the safeguards 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 the Council.

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 the Council has approved and that are in compliance with the PSAA Terms of Appointment.

At the time of writing, there are no non-audit fees. However, we are aware that the Service Manager – Finance (S151) & Audit has asked whether EY can provide advice on a tax related matter. These discussions are ongoing and we will update the Audit Committee if an agreement to provide support is reached. At this stage, no additional safeguards are required.

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 the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other 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 other 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 where management is required to make judgements or decisions 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 adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, the Audit Engagement Director, and the audit engagement team have not been compromised.

5.3 Other required communications

EY 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 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 June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
Opinion audit and VFM Conclusion	55,482	55,482	55,482
Grants	4,253*	4,253*	5,492
Total Audit Fee – Code work	59,735	59,735	60,974
Non-audit work	0	0	0

All fees exclude VAT.

* Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

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

- ▶ officers meet the agreed timetable of deliverables;
- ▶ the internal controls operate effectively for the key processes outlined in section 4.2 above;
- ▶ we can rely on the work of internal audit as planned;
- ▶ our accounts opinion and value for money conclusion are unqualified;
- ▶ appropriate quality of documentation is provided by the Council; and
- ▶ the Council has 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 the Council in advance.

Fees for the auditor's consideration of 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
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	<p>▶ Audit Plan</p>
<p>Significant findings from the audit</p> <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 	<p>▶ Report to those charged with governance</p>
<p>Misstatements</p> <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 	<p>▶ Report to those charged with governance</p>
<p>Fraud</p> <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 	<p>▶ Report to those charged with governance</p>
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <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 	<p>▶ Report to those charged with governance</p>
<p>External confirmations</p> <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 	<p>▶ Report to those charged with governance</p>
<p>Consideration of laws and regulations</p> <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 Committee may be aware of 	<p>▶ Report to those charged with governance</p>

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director'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 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance
<p>Going concern</p> <p>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 	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Report to those charged with governance
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Report to those charged with governance ▶ Annual Audit Letter if considered necessary
<p>Certification work</p> <p>Summary of certification work undertaken</p>	<ul style="list-style-type: none"> ▶ Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary

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Certification of claims and returns annual report 2015-16

New Forest District Council

27 January 2017

Ernst & Young LLP



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

Date: 27 January 2017
Ref: NFDC/ Claims/ 2015-16

Direct line: 02380 382099

Email: HThompson2@uk.ey.com

Dear Members

Certification of claims and returns annual report 2015-16 New Forest District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on the Council's 2015-16 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2015-16, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Statement of responsibilities

The 'Statement of responsibilities of grant-paying bodies, authorities, Public Sector Audit Appointments and appointed auditors in relation to claims and returns', issued by PSAA, serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

Summary

We checked and certified the housing benefits subsidy claim with a total value of £43,088,594. We met the submission deadline for this work.



Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2015-16 were published by the PSAA in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee on 25 January 2017.

Yours faithfully

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

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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£43,087,999
Amended/Not amended	Amended
Qualification letter	No
Fee – 2015-16	£5,492
Fee – 2014-15	£5,670

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid. The DWP require appropriately qualified auditors to certify housing benefit subsidy claims, and determine the methodology auditors follow when certifying them.

Our certification guidance stipulates the level of initial testing auditors are required to perform and requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out to determine if errors detected in the prior year's claim have reoccurred.

We then either report the extrapolated value of detected errors in a qualification letter or, if appropriate, agree an amendment to the claim with the Council.

We detected two errors as a result of our work and report them below.

1. From an initial sample of 20 non HRA cases we identified one error. In a bed and breakfast accommodation the 2014 Fuel Rate for 2 rooms of £32.96 was used instead of the 2015 rate of £34.46 which this resulted in an overpayment of £1.93. The Benefits Service Manager subsequently checked all HRA cases with the 2 room fuel rate and identified two further cases with the 2 bedroom fuel rate. Only one of these two cases was incorrect. However, there was no impact on the claim or the subsidy received. As we could isolate the error to these cases, '40+' or extended testing was not required and an amendment of £1.93 was made to the claim in 2015-16.
2. From an additional sample of 20 HRA cases, we identified one error. An overpayment had been misclassified as a Technical Overpayment, whereas it should have been an Eligible Overpayment. The Benefits Service Manager subsequently reviewed all similar HRA records classified as Technical Overpayments. A further four claims were also found to be incorrectly misclassified resulting in the 2015-16 claim being amended by £20.40.

2. 2015-16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published in March 2015 and are now available on the PSAA's website (www.psa.co.uk).

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	5,492	5,492	5,670

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016-17 is £4,352. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2016-17.

Details of individual indicative fees are available at the following web address:

<http://www.psa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Service Manager- Finance & Audit before seeking any such variation.

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

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**EMT – 3 JANUARY 2017
AUDIT COMMITTEE – 27 JANUARY 2017**

PROGRESS AGAINST THE 2016/17 AUDIT PLAN

1. INTRODUCTION

- 1.1. The purpose of this report is to inform members of the Audit Committee of progress made against the 2016/17 audit plan, which was approved in March 2016.

2. RESOURCES

- 2.1 The Audit Apprentice has now left after completing a year of the Apprenticeship. There have been changes to the Apprenticeship scheme and if a further apprenticeship in Audit is offered, this will be combined with Accountancy to meet the requirements of the new 'Trailblazer' apprenticeship.

- 2.2 Audit have now been allocated a room to accommodate 2 officers and all of the team now have a permanent desk.

3. INTERNAL AUDIT PLAN 2016/17 PROGRESS

- 3.1. Appendix 1 shows the progress made against the 2016/17 internal audit plan to December 2016. Progress is demonstrated by recording the current status of each audit assignment, the audit opinion and a summary of the number of recommendations made.

- 3.2. The internal audit plan is timetabled to ensure the audit assignments can be undertaken at the most effective time. Appendix 1 shows the audits planned for each quarter of the year. The following scheduling amendments have been made to the audit plan:

- Payroll audit due to be completed Q3 will now be completed in Q4
- Business Continuity audit due to be completed in Q3 will now be completed in 17/18. This is due to the responsibility for this area changing to another Service Manager following recent changes to the Management Structure
- Environmental Health – Pest Control audit and Dog Wardening audit due in Q4. A full service review of both of these areas will be completed in Q4. Audit will be providing support and advice as part of the review and will not complete the Audits.

- 3.3. The audit plan completion is slightly behind schedule. The 2 audits that haven't been completed are Building Works and Landscape and Open Spaces. These audits are being undertaken by the Senior and Principal Auditor respectively. This is due in part to a significant increase of ad-hoc queries. There has been a range in the subject of queries received, but a high proportion have been with regard to procedure requirements and authorisation levels. The Principal and Senior Auditor have also been involved in a recent data breach incident providing an independent verification of the actions taken following the breach to minimise the reputational risk to the Council.

- 3.4. The Senior Auditor has been managing the upgrade to the Experian system and has trained users on the new system. The management of this contract will be transferred to the Service Manager for Housing & Communities once it has been retendered, in 6 months. Until then the administration of the Experian system will remain with the Senior Auditor.
- 3.5. The decision for approval of Waivers to Contract Standing Orders has now been given to the Principal Auditor and Service Manager for Legal. This change will provide a consistent approach to decisions and also improve compliance to Procurement Rules.
- 3.6. The majority of work undertaken includes;
- Assurance and risk based service areas
 - Real time exception testing (creditors)
 - Attendance at projects including Affordable Housing, Garden Waste and Procurement Review, including the implementation of purchasing cards.
 - Review of contract payment certificates
 - Stock takes, cash ups and petty cash checks
 - Keyhaven Income Returns
 - Car Park Income Reconciliation
 - Follow up of audit recommendations
 - Work with third parties including:
 - Completed two Town Council audits
 - External Auditor's Subsidy testing
 - Dorset Audit Partnership
 - New Forest National Park audits

4. PROGRESS ON HIGH PRIORITY RECOMMENDATIONS

- 4.1. Internal Audit monitors progress made against agreed audit recommendations. Appendix 2 details all high priority recommendations that have resulted from Audits undertaken during 2016/17.
- Progress to implement high priority recommendations is monitored and any uncompleted recommendations are reported to Audit Committee. Currently the following high priority recommendations are outstanding;
 - Payment Card Industry Data Security Standards (PCI DSS) compliance
Action: Agresso have recently released an upgrade which will comply with the requirements of PCI DSS. This upgrade will be implemented in May 2017. New guidance documents on scoping and segmentation specifically around voice-over-IP installations (telephone systems) are due to be released mid-2017 and it could result in significant changes to compliance requirements. It has been decided to wait until the new guidance is issued before any further action with regard to telephone payments is taken.
 - Business Continuity
 - To ensure that all business units, that are deemed to have Critical Activities, have up to date Business Continuity Plans
 - To ensure Disaster Recovery Plans are created for each Critical System
 - High level of responsibility needs to be taken for creating and implementing business continuity plans and ensuring they are kept up to date

Action: The Service Manager for Business Improvement and Customer Services became responsible for this area in December. An audit of Business Continuity will take place during 17/18

Economic Development and Partnerships

It was recommended that the management of Partnerships was established to enable the monitoring and reviewing of partnership arrangements to be undertaken.

Action: EMT have reviewed and streamlined the Partnership Register and this will be reviewed every 6 months.

5. CORPORATE FRAUD

5.1. The new post of Corporate Fraud and Compliance Auditor was introduced in July 2016. The following actions have been undertaken:

- The Corporate Fraud and Compliance Officer and Principal Auditor have now qualified as Authorised Officers. This allows the 2 officers to contact Utility Companies and Employers for information that may be required as part of a fraud investigation.
- The Corporate Fraud Officer has attended fraud training in relation to Council Tax reduction scheme fraud and Housing Tenancy fraud.
- The Fraud 'Hotline' has been changed and all calls will now be received within Internal Audit other than those relating to Housing Benefit (Housing Benefit fraud referrals will be received in the Benefit Section and referred to DWP). Appendix 3 details the number of referrals received and type of Fraud since the improved 'Hotline' has been in place.

6. FINANCIAL IMPLICATIONS & CRIME AND DISORDER IMPLICATIONS

6.1. There are no direct implications arising from this report, however inadequate audit coverage may result in areas of control weakness, unacceptable risks or governance failings as well as the increased potential for error and fraud.

7. ENVIRONMENTAL MATTERS & EQUALITY AND DIVERSITY IMPLICATIONS

7.1. There are no matters arising directly from this report.

8. RECOMMENDATION

8.1. The Audit Committee note the content of the report and raise any further areas of assurance coverage that they require.

For Further Information Please Contact:

Glenda Chambers
Principal Auditor
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E-mail: glenda.chambers@nfdc.gov.uk

Background Papers:

Internal Audit Plan 2016/17

Naomi Kitcher
Senior Auditor
Tel: 023 8028 5588
Email: Naomi.kitcher@nfdc.gov.uk

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Audit Area	Est Days	Q1	Q2	Q3	Q4	Assurance Level	No. of High Priority	No. of Medium Priority	No. of Low Priority	No. of VFM
Health and Safety	15									
Landscape and Open Spaces	10	WIP	WIP	WIP						

High Priority Recommendations

Audit	Weakness Found	Risk Exposure	Priority	Recommended Action	Management Response	Officer Responsible	Agreed Date of Action	Follow up Comment
Grounds Maintenance	Spraying equipment and materials have not been procured in line with Contract Standing Orders	Contract Standing Orders are breached	High	It is recommended that the spraying equipment and materials either undergo a formal tender process or obtain a waiver to ensure that the service are adhering to Contract Standing Orders	We will await the results from the HCC Highways Term Maintenance Contract as this will impact on the amount of spraying equipment required. We will then assess the situation and look to comply with Contract Standing Orders	Service Manager – Open Spaces	January 2017	
Land Charges	The Service Manager (Planning & Building Control) has been advised, by legal, that he needs to now start the process for setting new charges to come into effect, from 1 st April 2017, as part of fees and charges.	Non-compliance with Statutory legislation	High	1.1 That both the Local Authorities (England) (Charges for Property Searches) Regulations 2008 regulations and the DCLG Local Authority Property Search Services – Costing and Charging Guidance are reviewed and that fees and charges are set and reported accordingly.	Awaiting Response	Service Manager – Planning & Building Control		

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Type	Date	Reported by	Action
CTRS - Undeclared Earnings		Member of Public	Under Investigation
CTRS - Household	08/11/2016	Member of Public	Under Investigation
CTRS - Undeclared Property	14/11/2016	Member of Public	Under Investigation
HB only - Undeclared Income	22/11/2016	Member of Public	No investigation needed as HB claim only. Passed to benefits team for DWP referral.
Tenancy - Subletting	23/11/2016	Member of Public	Under Investigation
False application Housing & CTRS	23/11/2016	Benefit Officer	Under Investigation
False Waiting List Application Form	24/11/2016	NFDC Officer	Under Investigation

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AUDIT COMMITTEE – 27/01/2017

FUTURE EXTERNAL AUDIT APPOINTMENT

1. PURPOSE OF THE REPORT

- 1.1 This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits.

2. BACKGROUND

- 2.1 The Council's external auditors are currently working under a contract originally let by the Audit Commission. The contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.
- 2.2 The Local Audit and Accountability Act 2014 (the Act) brought a close to the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 2.3 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 2.4 In July 2016 PSAA were specified by the Secretary of State as an appointing person (sometimes referred to as the sector led body). PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.
- 2.5 The Council's current external auditor is Ernst & Young LLP, this appointment having been made under a contract let by the Audit Commission, since novated to the PSAA. The PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years authorities have benefitted from a significant reduction in fees compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from the closure of the Audit Commission. The Council's indicative external fees for 2016/17 are £59,735.

3. SECTOR LED APPROACH

- 3.1 PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Councils auditor.

- 3.2 The principal benefits from such an approach are as follows;
- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointment to allow for appropriate groupings and clusters of audits where bodies work together;
 - PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
 - Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
 - It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than smaller scale competition; and
 - There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see section 4 below.
- 3.3 The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on the proposals from the audit firms.
- 3.4 The scope of the audit will still be specified nationally. The National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 3.5 Currently there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these firms being firms with a national presence. This means a local procurement exercise, as described in section 4 below, would seek tenders from these same firms. Local firms could not be invited to bid.

4. OTHER OPTIONS

- 4.1 If the Council did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
- 4.2 Alternatively the Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council/Authority under the Act. Initial discussions with neighbouring authorities suggest there isn't a strong appetite for such an arrangement.
- 4.3 Neither of these options are recommended. Both these options would be more resource intensive processes to implement and without the bulk buying of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

5. THE INVITATION AND WAY FORWARD

5.1 PSAA has now formally invited this Council to opt in. Details relating to PSAA's invitation are provided as an Appendix to this report.

5.2 In summary the national opt in scheme provides the following;

- The appointment of a suitably qualified audit firm for each of the five financial years commencing 1 April 2018
- Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to scheme members;
- Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
- Ongoing contract and performance management of the contracts once these have been let.

5.3 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of Full Council. The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA by early March.

5.4 PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

6. RISK MANAGEMENT

6.1 The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

7. LEGAL IMPLICATIONS

7.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

- 7.2 Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
- 7.3 Section 12 makes provision for the failure of to appoint a local auditor; the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

8. FINANCIAL IMPLICATIONS

- 8.1 There is a risk that the current external fees levels could increase when the contract ends in 2018. Until a procurement exercise is completed it is not possible to state what, if any, additional budget may be required for audit fees for 2018/19.
- 8.2 Opting in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.
- 8.3 If the national scheme is not used, additional budget and resource may be needed to establish an auditor panel and conduct a local procurement.

9. RECOMMENDATION

- 9.1 The Council accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five years commencing 1 April 2018.

Alan Bethune
Service Manager – Finance (S151) & Audit
Tel: 023 8028 5588
Email: Alan.Bethune@NFDC.gov.uk

27 October 2016

Email: appointingperson@psaa.co.uk

Bob Jackson
New Forest District Council
Appletree Court
Lyndhurst Hampshire SO43 7PA

Copied to: Alan Bethune, Finance Manager, New Forest District Council
Grainne O'Rourke, Executive Head of Governance & Regulation, New Forest
District Council

Dear Mr Jackson

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely

Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

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AUDIT COMMITTEE – 27 JANUARY 2017

AUDIT COMMITTEE - WORK PLAN

1.0 WORK PLAN

- 1.1 This report details the draft work plan for the Audit Committee for 2017.
- 1.2 The work plan may evolve during the year, due to, for example, any changes in legislation, change relating to the External Auditor timetables, or new reports which need to be brought to the attention of the Committee.

2.0 FINANCIAL IMPLICATIONS

- 2.1 There are no financial consequences directly arising from this report.

3.0 EQUALITY & DIVERSITY, CRIME AND DISORDER AND ENVIRONMENTAL MATTERS

- 3.1 There are no equality and diversity, crime or disorder or environmental matters directly associated with this report.

4.0 RECOMMENDATIONS

- 4.1. That the Audit Committee considers and approves the Work Plan as appended and informs Officers of any requested changes.

For Further Information Contact:

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Audit Committee Work Plan 2017/18

DATE	WORK / REPORTS
24 March 2017	External Audit Progress Report Internal Audit Progress report against the audit plan Q4 (provisional) Outstanding high priority audit recommendations Internal Audit Charter & Internal Audit Plan Review of any other relevant policies as required Risk Update RIPA Update Fraud Related Policies
23 June 2017	External Audit Progress Report Annual Work Programme Treasury Management Outturn Report 2016/17 Review of the Local Code of Good Governance Response to the external auditor on the management and controls in the organisation Annual Internal Auditors Report Annual Governance Statement Internal Audit Progress report against Q1 Write-Offs Draft Annual Financial Report 2016/17 Audit Committee Annual Report
25 August 2017	External Auditor – Audit Results Reports External Auditor - Opinion on the Statement of Accounts & Value for Money Statement of Accounts Annual Governance Statement Governance Action Plan Follow up Treasury Management Mid Year Monitoring Report 2017/18 Internal Audit Progress report against the audit plan Q2 Outstanding high priority audit recommendations Annual Waivers - Procurement
26 January 2018	External Auditor Grant Claim Certification External Audit 2017/18 Audit Plan External Auditor's Annual Audit Letter Treasury Management Strategy 18/19 Internal Audit Progress report against the audit plan Q3 Outstanding high priority audit recommendations Annual RIPA Report Strategic Risk Register