

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: FRIDAY, 27 OCTOBER 2023, AT 9.30 AM

Place: COUNCIL CHAMBER - APPLETREE COURT, BEAULIEU ROAD, LYNDHURST, SO43 7PA

Enquiries to: E-mail: andy.rogers@nfdc.gov.uk
Tel: 023 8028 5070

PUBLIC PARTICIPATION:

Members of the public may watch this meeting live on the [Council's website](#).

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

- (a) on items within the Audit Committee's terms of reference which are not on the public agenda, when the Chairman calls the public participation item; 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 no later than 12.00 noon on Tuesday, 24 October 2023.

Kate Ryan
Chief Executive

Appletree Court, Lyndhurst, Hampshire. SO43 7PA
www.newforest.gov.uk

This agenda can be viewed online (<https://democracy.newforest.gov.uk>).

It can also be made available on audio tape, in Braille and large print.

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 28 July 2023 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 receive any public participation in accordance with the Council's public participation scheme.

4. FINAL EXTERNAL AUDIT REPORT FOR 2021/22 (Pages 3 - 50)

To receive the Final External Audit Report for 2021/22 .

5. INTERNAL AUDIT PROGRESS REPORT 23/24 (Pages 51 - 64)

To consider the Internal Audit Progress Report 2023/24.

6. TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 23/24 (Pages 65 - 78)

To receive the Treasury Management Mid – Year Monitoring Report for 2023/24.

7. EXTERNAL AUDIT FOR THE YEAR ENDED 31 MARCH 2023 - VERBAL UPDATE

To receive a verbal update on the External Audit for the year ended 31 March 2023.

8. INSURANCE RENEWAL UPDATE (Pages 79 - 80)

To receive an Insurance Renewal Update.

9. AUDIT COMMITTEE WORK PLAN (Pages 81 - 82)

To consider the Audit Committee's Work Plan.

10. DATES OF FUTURE MEETINGS

To agree the following dates for Audit Committee meetings in 2024/25.

31 May 2024

26 July 2024

25 October 2024

24 January 2025

21 March 2025

11. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

To:

Councillors

Councillors

Alan Alvey (Chairman)
Matthew Hartmann (Vice-
Chairman)
Keith Craze
Jack Davies
Jacqui England

Neil Millington
Alan O'Sullivan
Richard Young
Caroline Rackham

**New Forest
District Council
Audit results report**

Year ended 31 March 2022

October 2023

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EY

Building a better
working world

Agenda Item 4



Members of the Audit Committee

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

16 October 2023

Dear Audit Committee Members

2021/22 Audit Results Report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee.

The audit is designed to express an opinion on the 2022 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on New Forest District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 27 October 2023.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>).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 and further guidance (updated July 2021)” issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee members and management of New Forest District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of New Forest District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee members and management of New Forest District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01

Executive Summary

Scope update

In our audit planning report presented at the 29 July 2022 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following amendments:

- **Changes in materiality**

We updated our planning materiality assessment using the draft financial statements. We also reconsidered our risk assessment and confirmed the basis for materiality continues to be appropriate.

	Planning Materiality	Performance Materiality	Audit Differences
Planning	£2.429 million	£1.822m	£0.121m
Final	£2.422 million	£1.816m	£0.121m

- **Portfolio heading changes**

We noted in 2021/22 the Council have updated the Cost of Services headings within the Statement of Comprehensive Income and Expenditure in order to be in line with the new service line structure which was updated in 2021/22. In order to allow the user of the financial statements to compare one year to the next, the prior year figures have been restated in the CIES and EFA to reflect these updated service lines. We have reviewed the changes and performed testing on the remapping of the prior year figures to confirm the restatement has been completed correctly.

- **Reduction in Risk profile – EUV PPE Assets**

Based on the level of assets revalued at EUV and the reduced market uncertainty in relation to these assets, we have reduced the risk of material misstatement for this account from a significant risk to a high inherent risk. We have continued to engage with our valuation specialist, EY Real Estates to test a sample of EUV assets to confirm the approach and valuation is within a reasonable range.

- **Additional work performed on IAS 19 Pensions Liability**

As the audit remained open as at 31/3/2023, additional information became available in regards to the IAS 19 Pensions Liability based on Hampshire Pension Fund's Triennial Valuation. In order to confirm the impact on the Pensions figures from the triennial valuation, we requested to obtain an updated version of the IAS 19 report from the actuary. We engaged with our EY Pensions specialist to evaluate the reasonableness of the Pension Fund actuary's gross liability calculations. We also tested membership data at the pension fund level. As the movements between the original and updated IAS19 reports were material, management agreed to amend the pension liability figures in the accounts.



Executive Summary

Status of the audit

We have substantially completed the fieldwork for our audit of New Forest District Council's financial statements for the year ended 31/3/2022 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3:

- Receipt of further information to support the accounts in areas of:
 - Capital Expenditure and Capital Financing
 - Capital Grants RIA
 - Group Cashflow forecast extending 12 months from the date of signing the opinion
- Completion of manager and partner review in areas above and of the following:
 - PPE & IP valuation testing
 - NDR appeals
 - HRA Expenditure Testing
 - Expected Credit Loss Provision and Receivables
 - Year end Journals Testing
- Receipt of the Letter of Representation
- Receipt of the final, approved Accounts and Annual Governance Statement
- Completion of audit procedures to assess potential events after the balance sheet date, up to the date of signing the audit report.

Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 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. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Executive Summary

Status of the audit – Value for Money

Our work on the Value for Money commentary to be included in the Auditors Annual Report has been significantly completed. We can confirm at this stage we have not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code.

Recognising the pressures in the local audit system, the NAO's guidance for 2021/22 allows the Auditors Annual Report to be issued 3 months after giving the opinion on the financial statements.

Audit differences

During the audit we have identified some misstatements that have been discussed with management. Some of these have been adjusted for in the updated Statement of Accounts, but a number remain uncorrected based on materiality. We also note that there have been a number of suggested amends to disclosures.

Further details can be found in Section 4 Audit Differences.

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Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We are still to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, this will be performed at the completion of the audit. We expect no issues to report as the Council is below the threshold for detailed audit procedures.

We have no other matters to report.



Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of New Forest District Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud Risk: Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

- Work in this area is complete – no matters to report.

Significant risk: Valuation of Fair Value Land and Buildings Inc. Investment Properties

- Work in this area is substantially complete subject to final review – two judgemental differences to report
 - Salisbury Road Parade Asset Value overstated £284k
 - Nova Business Centre understated £124k

Other Area of Audit Focus: Valuation of Land and Buildings (EUV)

- Work in this area is substantially complete subject to final review – two differences to report, one regarding valuation approach has been agreed to be corrected by management.
 - Revaluation of 5 Leisure Centre assets to DRC rather than EUV. Asset value understated £11,585k (corrected)
 - Ringwood Furlong Car Park Asset Value overstated £368k

Other Area of Audit Focus: Valuation of Land and Buildings (DRC)

- Work in this area is substantially complete subject to final review – one judgemental difference to report
 - New Milton Health and Leisure overstated £224k

Other Area of Audit Focus: Valuation of Council Dwellings

- Work in this area is substantially complete subject to final review – currently no matters to report.

Other Area of Audit Focus: Pension Liability Valuation

- Work in this area is complete - we now await the updated accounts to tick through the expected amendments following the updated IAS19 report post 2022 Triennial valuation

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Council or Management.



Executive Summary

Control and Other Observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

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 your financial statements of which you are not aware.

Based on our work performed to date we have made the following control observations. Further detail is recorded in Section 7

- Related Party Transactions – In order to appropriately report related party transactions in the financial statements, we expect the Council to maintain an up-to-date register of interests. This is achieved through members and senior officers submitting their declaration of interests annually. During our testing we noted instances of members not providing a submission in 2021/22, although it is noted the majority of members have made a timely submission. While we have been able to obtain alternative evidence to satisfy ourselves the Related Parties Transactions note is accurate, in future years we request that annual submissions are completed in all cases. Prior to a member/senior officer leaving the Council mid-year, their submission should be obtained prior to their departure.
- Financial Statements Preparation – As part of CIPFA's *Cutting the Clutter* thematic, we have reviewed the financial statements and identified 18 notes which can either be consolidated together to reduce duplication of information or could be removed altogether on the grounds of materiality. This information was shared with management in March 2023 for their consideration in 22/23 accounts preparation.

During our substantive testing and a review of the transactional data via our data analytics tools, it was noted that the Council initiate the majority of journal entry postings based on budget figures. The amounts are allocated out to multiple business units on a monthly basis through recharges. In order to then record the actual rather than budgeted figures in the financial statements, clearing transactions are posted at year end. This has been a method used by the Council for a number of years and while not suggestive of resulting in incorrect figures in the financial statements, the multiple recharge and budgetary postings lead to difficulties in identifying a clear audit trail when testing a sample of Income and Expenditure transactions. It also can create difficulties in attempting to reconcile financial statements related general ledger codes to subledgers including Payroll and Accounts Receivable, which is a key procedure performed to confirm the completeness of listings.

In future years, we request that the Council perform these reconciliations between the financial statements GL codes to subledgers (rather than to budgetary codes) in advance of the audit to help provide those early assurances that the data is correct and complete. We would also request the Council to consider if their current method is the most efficient approach of Journal Entry posting as for 21/22 there were over £300million of Income and Expenditure entries that are netted out to nil as part of the creation of the financial statements. Further detail is provided in Section 8.

Independence

Please refer to Section 9 for our update on Independence.



02

Areas of Audit Focus



Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

We identify and respond to this fraud risk on every audit engagement.



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What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified Significant risk - Inappropriate capitalisation of revenue expenditure

What did we do?

We carried out the following procedures:

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

This area is subject to final manager and partner review at the time of writing this report. However, our audit work to date has not identified any of the following:

- any material weaknesses in controls or evidence of material management override.
- any instances of inappropriate judgements being applied, or of any management bias.
- any transactions during our audit which appeared unusual or outside the Council's normal course of business.
- any inappropriate journal entries



Significant risk

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, incorrectly removing the spend from the general fund through applying statutory overrides.



What did we do?

Our approach focused on the following:

- ▶ We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise as per IAS 16 through agreement to evidence such as invoices and capital expenditure authorisations.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions through our test of journals or our other audit procedures, impacting these balances.

Significant risk

Valuation of Land and Buildings (FV) and Investment Properties

What is the risk?

Property, Plant and Equipment land and buildings (L&B) measured at Fair Value and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher risk that L&B and IP may be under/overstated or the associated accounting entries incorrectly posted. We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates.

The risk is heightened for assets that may have been impacted by the Covid-19 pandemic, such as traditional retail assets, commercial property or other sectors impacted by the lockdown restrictions and their impact on the economy.



What judgements did we focus on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's internal valuations expert, including key assumptions of:
 - Yields
 - Future forecast income
 - Asset condition
- Ensuring the information supplied to the valuer in relation to New Forest District Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from the Internal Valuer.



Areas of Audit Focus

Significant risk

What did we do?

We have:

- Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Considered any specific changes to assets that should have been communicated to the valuer;
- Sample tested key asset information used by the valuer in performing their valuation (e.g.. floor plans to support valuations based on price per square metre);
- Tested a sample of assets revalued in year to:
 - Challenge the assumptions used by the Council's valuers by reference to external evidence and our EY valuation specialists (where necessary);
 - Test journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;
- Instructed our own Property valuation team (EY Real Estates) to review a sample of FV valuations performed by the Council's Valuer;
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements

What are our conclusions?

Our work in this area is substantially complete.

We confirmed the scope of the work performed and professional capabilities of the valuer were reasonable and appropriate.

From our sample testing by both the local team and our EY Real Estates team, we identified two assets (Salisbury Parade & Nova Business Centre) with a judgemental uncorrected overstatement greater than our triviality threshold. This was due to the differences in yields applied by the valuer and our assessment.

All Investment property assets were confirmed to be revalued in year, with appropriate accounting entries and disclosures made in the financial statements.

Other areas of audit focus

Valuation of Land and Buildings (EUV)

What is the risk?

Property, Plant and Equipment land and buildings (L&B) measured at Existing Use Value (EUV) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end EUV balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuers are subject to estimation, there is a higher inherent risk that EUV assets may be under/overstated or the associated accounting entries incorrectly posted.

What judgements are we focused on?

- We have focused on the same judgements as recorded for the FV testing noted above, as the methodology uses the same assumptions (except FV looks at highest and best use).

What did we do?

We have:

- Considered the work performed by the Council's valuer, this included a review of the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Considered any specific changes to assets that should have been communicated to the valuer;
- Sample tested key asset information used by the valuer in performing their valuation
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements

What are our conclusions?

Our local team testing in this area is substantially complete. From our sample testing by both the local team and our EY Real Estates team, we identified one asset (Ringwood Furlong Car Park) with a judgemental uncorrected overstatement greater than our triviality threshold. This was due to our assessment including a Market Rent Adjustment to net income, and Purchaser's costs deducted from the property value.

During our testing we also identified that all leisure centre assets held by the council had been revalued at EUV in 21/22, rather than DRC which had been applied previously. As these assets continue to be operational and specialised, we consider DRC the most reasonable method to apply when valuing these assets. The valuer agreed to amend this approach and revalued the assets at DRC, with the resulting change in value being agreed to be corrected by management.

The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.

We consider the useful economic lives of the assets to be reasonable and all accounting entries have been correctly processed in the financial statements.

Other areas of audit focus

Valuation of Land and Buildings (DRC)

What is the risk?

Land and Buildings valued at Depreciated Replacement Cost (DRC) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's internal valuations expert, including key assumptions of:
 - Build cost and location factor
 - Professional fees and external works
 - Asset condition

What did we do?

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Reviewed assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements,

What are our conclusions?

Our local team testing in this area is substantially complete.

From our sample testing by both the local team and our EY Real Estates team, we identified one asset (New Milton Health and Leisure) with a judgemental uncorrected overstatement greater than our triviality threshold. This was due to our assessment considering a lower BCIS rate than used by the valuer was appropriate when recalculating the build cost.

The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.

We consider the useful economic lives of the assets to be reasonable and all accounting entries have been correctly processed in the financial statements.



Other areas of audit focus

Valuation of Council Dwellings

What is the risk?

As with Land and Buildings, the value of Council Dwellings in the Council's accounts are subject to valuation changes and impairment reviews. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

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What judgements are we focused on?

We focused on the following:

Property value based on external market data for equivalent properties in the local area.

This is based on the comparable range of property sales of similar characteristics and adjusted for location. For instance the characteristics of the property depending on the geographical, number of bedrooms and type.

What did we do?

- Evaluated the application of the Beacon Methodology;
- Tested a sample of Council Dwellings valuations against equivalent property market sales
- Tested accounting entries have been correctly processed in the financial statements.

What are our conclusions?

Subject to final review, our testing has identified no material misstatements.

The Beacon Methodology has been correctly applied and properties have been assessed to be appropriately classified within each beacon.

Council dwelling valuations are in line with current market data.

We have not identified any instances of inappropriate judgements being applied.



Other areas of audit focus

Pension Liability Valuation

What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Council's expert – Aon Hewitt.
- Ensuring the information supplied to the actuary in relation to New Forest District Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Aon Hewitt.

What did we do?

- Liaised with the auditors of the administering authority (Hampshire County Council), to obtain assurances over the information supplied to the actuary in relation to New Forest DC.
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- In accordance with the ISA540 (revised) standard, we tested the actuarial model to confirm it is appropriately designed, consistently applied and mathematically accurate. We involved our EY Pensions specialists to perform this work.

What are our conclusions?

Impacting all unsigned audits as at 31 March 2023, we needed to consider the potential impact of the triennial valuation of the pension fund. The updated valuation has meant that Authorities have had to consider re-running their IAS 19 reporting and update the figures in the balance sheet to reflect the new Valuation.

Due to the material movements in these figures, we have had to perform additional procedures. This work includes additional membership testing of the Fund level data, obtaining updated assurances from PWC as the consulting actuaries and making comparisons to our own actuarial model.

We have assessed the work of the Pension Fund Actuary, relying on the work of PWC and the EY Actuarial team which confirmed there were no findings in respect to the actuarial assumptions. The results of the EY pensions specialist has confirmed the actuarial estimate to be accurate within a reasonable range.

We are satisfied the updated IAS 19 report has been correctly reflected in the Council's financial statements.



03 Audit Report



Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW FOREST DISTRICT COUNCIL

Opinion

We have audited the financial statements of New Forest District Council (the Council) for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- the related notes 1 to 56, and the Expenditure and Funding Analysis,
- Housing Revenue Accounts Income and Expenditure Statement and the related notes 1 to 7, and
- Collection Fund and the related notes 1 to 7

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of New Forest District Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of

the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Responsible Financial (s151) Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Responsible Financial (s151) Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.

Other information

The other information comprises the information included in the Financial Report, other than the financial statements and our auditor's report thereon. The S151 Officer is responsible for the other information contained within the Financial Report

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.



Draft audit report

Our opinion on the financial statements

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended)
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended)
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended)
- we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects

Responsibility of the Responsible Financial (s151) Officer

As explained more fully in the Statement of Responsibilities set out on page 3, the Responsible Financial (s151) Officer is responsible for the preparation of the Annual Financial Report for the year 2021/22, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Responsible Financial (s151) Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Draft audit report

Our opinion on the financial statements

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Council and determined that the most significant are:

- Local Government Act 1972,
- Local Government and Housing Act 1989 (England and Wales),
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018, 2020 and 2022,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948) ,
- The Local Audit and Accountability Act 2014 (as amended),
- The Accounts and Audit Regulations 2015,

In addition, the Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how New Forest District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal

audit, those charged with governance and the monitoring officer and obtaining and reviewing documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our review of the Council’s committee minutes, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council’s financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified, inappropriate capitalisation of revenue expenditure and management override of controls and to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council’s capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor’s report.



Draft audit report

Our opinion on the financial statements

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criterion issued by the Comptroller and Auditor General in December 2021, as to whether the Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 (as amended) to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of New Forest District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.



04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted and unadjusted differences

We highlight the following misstatements greater than £1.8m which have been corrected by management that were identified during the course of our audit:

- In 21/22 the Council altered the valuation approach for leisure centres from Depreciated Replacement Cost (DRC) to Existing Use Value (EUV). Due to the fact that these assets are considered operational and specialised, it was concluded that DRC was the appropriate valuation method. Therefore, the valuer agreed to revalue these assets, which confirmed an £11.6m understatement. Management agreed to amend for this difference.
- It is noted the updated Pensions Liabilities figure and associated disclosure amendments in the final accounts fully agreed to the updated IAS19 report and therefore are recorded as having nil difference.

We report to you any uncorrected misstatements greater than our nominal value of £121k, as recorded below:

Uncorrected misstatements 31 March 2022 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase				
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	Equity components Debit/(Credit)
Judgemental differences:							
• Investment Property Valuations – Salisbury Parade		£284k		(£284k)			
• Investment Property Valuations – Nova Business Centre		(£124k)		£124k			
• PPE Valuations – New Milton Health and Leisure	£224k			(£224k)			
• PPE Valuations – Ringwood Furlong Car Park	£368k			(£368k)			
NDR Appeals Provision		£321k			(£321k)		
Totals	£592k	£481k		(£752k)	(£321k)		

A number of disclosure errors were also identified and updated on review of the Financial Statements.

As we review the amended version of financial statements, it is possible that further amendments may arise. We will provide an update at the Audit Committee meeting and a final position at the conclusion of the audit.



05 Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

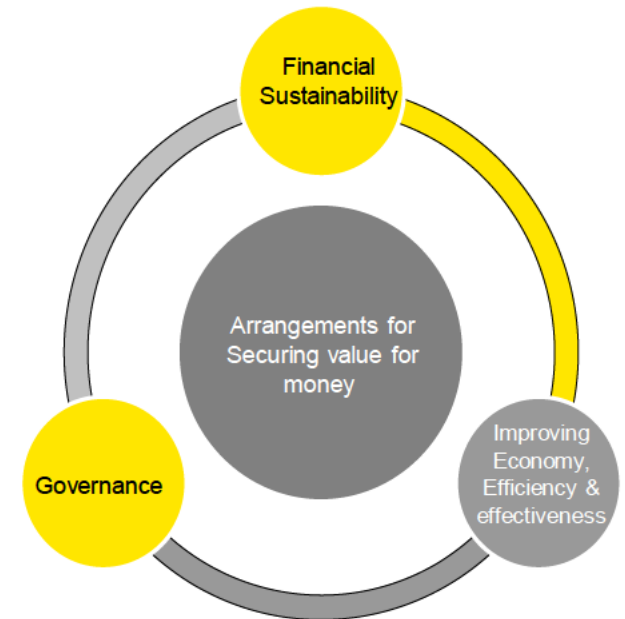
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and Status of our VFM work

We have previously reported to the Council that our assessment of the risk of significant weaknesses in the Council's VFM arrangements remained ongoing, but at this stage we have not identified any risks.

We have substantially completed our procedures and have not identified any risks of significant weaknesses in the Council's arrangements.

We plan to issue the VFM commentary within 3 months of the date of signing the opinion as part of issuing the Auditor's Annual Report.





06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Financial Report 2021/22 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Narrative Statement and published with the financial statements was consistent with the audited financial statements

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

At the time of writing this report we have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This work will be performed on completion of the audit. We anticipate no matters to report, as the Council falls below the threshold for detailed audit procedures.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the New Forest District Council's financial reporting process. We have no other matters to report.



07

Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

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.

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

Based on our work performed to date we have made the following control observations and recommendations.

- Related Party Transactions – In order to appropriately report related party transactions in the financial statements, we expect the Council to maintain an up to date register of interests. This is achieved through members and senior officers submitting their declaration of interests annually. During our testing we noted instances of members not providing a submission in 2021/22, although it is noted the majority of members have made a timely submission. While we have been able to obtain alternative evidence to satisfy ourselves the Related Parties Transactions note is accurate, in future years we request that annual submissions are completed in all cases. Prior to a member/senior officer leaving the Council mid year, their submission should be obtained prior to their departure.
- Financial Statements Preparation – As part of CIPFA's *Cutting the Clutter* thematic, we have reviewed the financial statements and identified 18 notes which can either be consolidated together to reduce duplication of information or could be removed altogether on the grounds of materiality. This information was shared with management in March 2023 for their consideration in 22/23 accounts preparation.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention



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Data Analytics

Data analytics — Journal Entries

Analytics Driven Audit

Data Analytics

We used our data analysers to enable us to capture entire populations of your financial data in a “Data First” approach. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2021/22, our use of these analysers in the Council’s audit included gaining a deeper understanding of the data sources which are used in each Significant Class of Transactions and therefore allowing us to tailor our testing accordingly dependant on the nature of the source entries. We tested specific journal entries which we deem to have the highest inherent risk to the audit, including unusual transactions not consistent with the rest of the population.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all of the Council’s financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Data analytics — Journal Entries

Analytics Driven Audit

Data Analytics

Journal Entry Analysis (Continued)

As part of our “Data First” approach, it was noted New Forest District Council initiate the majority of journal entry postings based on budget figures. The amounts are allocated out to multiple business units on a monthly basis through recharges. In order to then record the actual rather than budgeted figures in the financial statements, clearing transactions are posted at year end.

This has been a method used by the Council for a number of years and while not suggestive of resulting in incorrect figures in the financial statements, the multiple recharge and budgetary postings lead to difficulties in identifying a clear audit trail when testing a sample of Income and Expenditure transactions. It also can create difficulties in attempting to reconcile financial statements related general ledger codes to subledgers including Payroll and Accounts Receivable, which is a key procedure performed to confirm the completeness of listings.

In future years, we request that the Council perform these reconciliations between the financial statements GL codes to subledgers (rather than to budgetary codes) in advance of the audit to help provide those early assurances that the data is correct and complete.

We would also request the Council to consider if their current method is the most efficient approach of Journal Entry posting. Currently there are over £300million of Income and Expenditure entries that are netted out to nil as part of the creation of the financial statements, a significant volume.

There are 4,111 manual journals smaller than £500 posted across the period. This is estimated to take around 685 hours to post to your accounts at 10 minutes per journal. Can these postings be grouped together, automated or eliminated?



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Independence

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below.

As at the date of this report, no written proposal to provide non-audit services has been submitted.

We confirm that for 2021/22 we have not undertaken non-audit work.

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Council.

Our fees continue to include the scale fee rebasing figure submitted in the prior year to properly account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. This submission is still with the PSAA for their consideration.

As part of our reporting on our independence, to the right we set out a summary of the fees you have paid us in the year ended 31 March 2022.

We confirm that we have not undertaken non-audit work.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Scale Fee	42,721	42,721	42,721
Scale Fee Rebasing (1)	24,429	24,429	23,199
Revised Proposed Scale Fee	67,150	67,150	65,920
Scale Fee Variation (2)	TBC	TBC	11,394
Total Audit Fee	TBC	TBC	77,314

(1) As detailed in our 2020/21 Auditor's Annual Report we have submitted a proposed rebasing of the scale fee. PSAA have approved the 20/21 Scale Fee Variation (including rebasing element) as shown. We continue to record the same rebasing figure for 21/22 as we submitted for 20/21.

(2) For 2021/22, the scale fee will be impacted by a range of factors which has resulted in additional work at this time we are unable to fully quantify as the work is ongoing. However, the issues we have identified which will impact on the fee include:

- The need to engage EY Real Estate to review a small number of PPE/IP assets.
- The need to engage EY Pensions to review assumptions used in the Pensions IAS19 liability. Estimated value £1,000.
- Work to review the portfolio heading changes prior year restatements. Estimated value £1,000
- Additional work undertaken on aspects of housing benefit income and expenditure which would previously have been performed as part of HB certification and additional work performed in relation to Pension Fund IAS 19 data submission procedures undertaken for admitted bodies. Value £1,182

Other communications

EY Transparency Report 2022

Ernst & Young (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 in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

[EY UK Transparency Report | EY UK](#)






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Appendices

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA’s appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report – July 2022	
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	Audit Planning Report – July 2022	
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report – October 2023	

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		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<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 related to going concern • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The appropriateness of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about New Forest District Council’s ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit Results Report – October 2023
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report – October 2023
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report – October 2023

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		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<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 	Audit Results Report – October 2023
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Results Report – October 2023
External confirmations	<ul style="list-style-type: none"> • Management’s refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	We have not identified any significant deficiencies in internal controls
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report – October 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report – October 2023
Auditors report	<ul style="list-style-type: none"> Key audit matters that we will include in our auditor’s report Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report – October 2023 No such circumstances identified

Draft Management Representation Letter

Management Rep Letter

[To be prepared on the entity's letterhead]

Ernst & Young LLP

Grosvenor House
Grosvenor Square
Southampton
Hampshire
SO15 2BE

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of New Forest District Council ("the Group and Council") for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of New Forest District Council as of 31 March 2022 and of its income and expenditure for the year then ended in accordance with Group CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and for the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council, the Accounts and Audit Regulations 2015

and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic and of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. **We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement]**

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

Management representation letter

Management Rep Letter

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
 3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
 4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council’s financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council’s activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.
- C. Information Provided and Completeness of Information and Transactions
1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
 3. We have made available to you all minutes of the meetings of the Group and Council, Cabinet and Audit Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: October 2023.
 4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.
 5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
 6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter

Management Rep Letter

7. From the date of our last management representation letter (29 April 2022) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the consolidated and council financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 55 to the financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than as described in the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period

end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the consolidated and council financial statements.
2. The key assumptions used in preparing the consolidated and council financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

I. Comparative information – corresponding financial information

1. CIES and EFA - Following an updated portfolio structure in 2021/22, the cost of services lines in the CIES and EFA have been adjusted accordingly.
2. The comparative amounts for this item has been correctly restated to reflect the above matter and appropriate note disclosure of these restatements has also been included in the current year's Group and Council financial statements.

Management representation letter

Management Rep Letter

J. Reserves

1. We have properly recorded or disclosed in the consolidated and council financial statements the useable and unusable reserves.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the IAS19 pension liability and disclosure, property, plant and equipment valuations and investment property valuations, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates

1. We confirm that the significant judgments made in making the estimates for pension liabilities and the valuations of property, plant and equipment and investment properties have taken into account all relevant information of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out any relevant specific courses of action on behalf of the entity.

4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

M. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

(s151 Officer)

(Chair of the Audit Committee)

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ED None

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AUDIT COMMITTEE – 27 OCTOBER 2023

INTERNAL AUDIT PROGRESS REPORT 2023-24 (SEPTEMBER 2023)

1. RECOMMENDATIONS

- 1.1 That the Audit Committee note the content of the progress report, attached as Appendix A, summarising internal audit progress with delivering the 2023-24 audit plan to 30th September 2023.

2. INTRODUCTION

- 2.1 The purpose of this report is to provide the Audit Committee with an overview of internal audit activity completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

3. BACKGROUND

- 3.1 Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

- 3.2 In accordance with the Public Sector Internal Audit Standards and the Council's Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

'communications on the internal audit activity's performance relative to its' plan.'

- 3.3 The progress report, attached as Appendix A, summarises the performance of Internal Audit for 2023-24 to 30th September 2023.

4. FINANCIAL IMPLICATIONS

- 4.1 The audit plan consists of 400 audit days including 18 audit days provided to the New Forest National Park Authority under the current Service Level Agreement. The Council's budget for 2023-24 reflects these arrangements.

5. CRIME & DISORDER IMPLICATIONS

- 5.1 There are no crime and disorder implications arising directly 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.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no matters arising directly from this report.

7. EQUALITY & DIVERSITY IMPLICATIONS

7.1 There are no matters arising directly from this report.

8. DATA PROTECTION IMPLICATIONS

8.1 There are no matters arising directly from this report.

For further information contact:

Antony Harvey
Deputy Head of Partnership (SIAP)
07784 265289
antony.harvey@hants.gov.uk

Background Papers:

Internal Audit Plan 2023-24

Internal Audit Progress Report 2023-24

September 2023

New Forest District Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents:

- 1. Role of Internal Audit 3
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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations’ operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

New Forest District Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations’ objectives.

2. Purpose of report

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

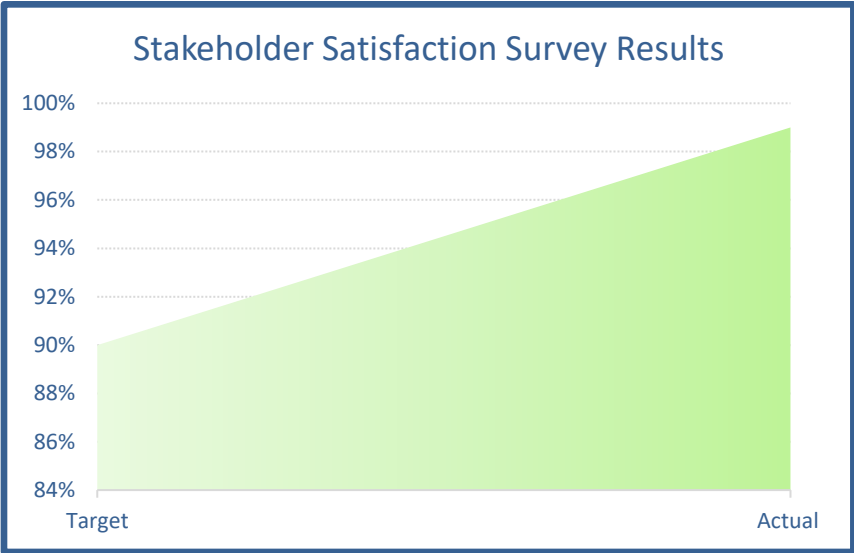
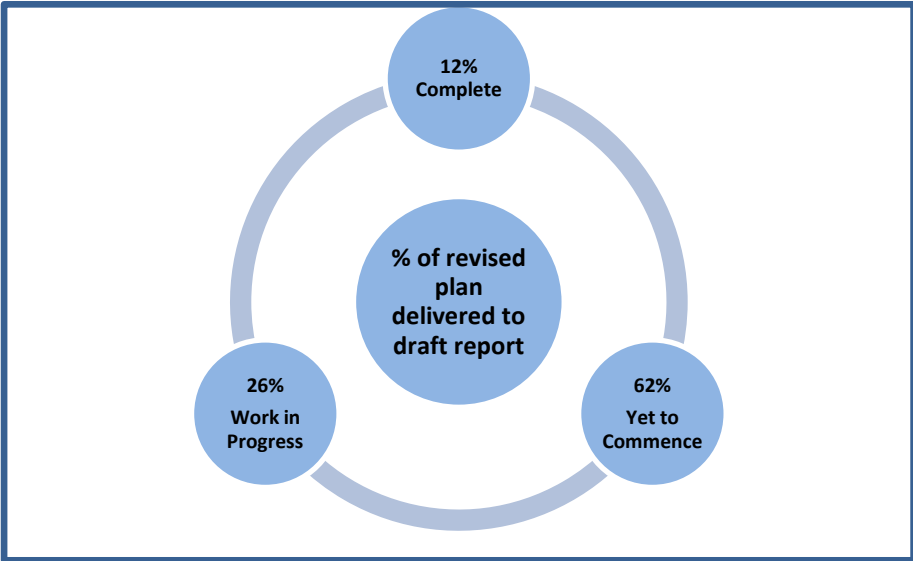
- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

56

3. Performance dashboard



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Compliance with Public Sector Internal Audit Standards

An External Quality Assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

'The mandatory elements of the International Professional Practices Framework (IPPF) include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.

We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN).

We are pleased to report that SIAP conform with all relevant, associated elements.'

4. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Yet Due	Complete	Overdue		
							L	M	H
Income Collection and Banking	Jun 21	SM (R&CS)	Reasonable	4	2	2			
Cyber Security	Jul 21	ICTOM	Reasonable	8	0	6		2	
Lease Income and Charges	Aug 22	SM (E&V)	Reasonable	2	0	1	1		
Homelessness – Triage	Apr 23	SM (HO)	Reasonable	6	2	3	1		
Fleet Management (follow-up phase 2)	May 23	SM (W&T)	Reasonable	9	9	0			
Identity Management (ICT)	May 23	ICTOM	Reasonable	6	0	4		2	
IT Asset Management	May 23	ICTOM	Limited	11	0	8	1	2	
Housing Asset Management – Legionella Checks *	Jun 23	SM (HM&C)	Reasonable	14	0	14			
Risk Management – Follow-up	Jun 23	SDCR&T	n/a	7	0	4			3
Engineering Works	Aug 23	SM (C)	Limited	10	10	0			
Total							3	6	3

* Denotes audits where all actions have been completed since the last progress report

Progress is being made to address the overdue, high priority Risk Management actions. An action plan to rollout the new framework to each service area, reassess individual service risk registers against the new framework and formalise timetables for on-going review and associated reporting is expected to be in place by the end of October 2023. To date, meetings have been held with seven service areas to review their arrangements. Training will be delivered to Service Managers and Senior Managers on the 7th October 2023. These sessions will be recorded and will be used for any new starters and any managers that were unable to attend.

Audit Sponsor		Audit Sponsor	
Strategic Director Housing, Communities & Governance	SDHC&G	ICT Operations Manager	ICTOM
Assistant Director Housing	ADH	Transformation & Improvement Manager	T&IM
Service Manager (Housing Maintenance & Compliance)	SM (HM&C)	Performance & Insight Manager	P&IM
Service Manager (Housing Options, Rents, Support and Private Sector Housing)	SM (HO)	Strategic Director Place, Operations & Sustainability	SDPOS
Service Manager (Housing Strategy & Development)	SM (HS&D)	Assistant Director Place Operations	ADPO
Service Manager (Estate Management & Support)	SM (EM&S)	Service Manager (Coastal)	SM (C)
Service Manager (Democratic Services)	SM (DS)	Service Manager (Waste & Transport)	SM (W&T)
Service Manager (Legal Services)	SM (LS)	Environment Enforcement & Amenities Manager	EE&AM
Service Manager (Environmental & Regulation)	SM (E&R)	Grounds & Streetscene Manager	G&SM
Information Governance & Complaints Manager	IG&CM	Assistant Director Place Development	ADPD
Strategic Support Manager	SSM	Service Manager (Development Management)	SM (DM)
Strategic Director Corporate Resource & Transformation	SDCR&T	Service Manager (Planning Policy and Infrastructure)	SM (PP&I)
Assistant Director Transformation	ADT	Economic Development Manager	EDM
Service Manager (Revenues & Customer Services)	SM (R&CS)	Building Control Team Leader	BCTL
Service Manager (Human Resources)	SM (HR)		
Service Manager (Estates & Valuation)	SM (E&V)		
Service Manager (Finance)	SM (FIN)		
Service Manager (Elections & Business Improvement)	SM (E&BI)		
Data Development & Delivery Manager	DDDM		

5. Executive Summaries of reports published concluding a ‘Limited’ or ‘No’ assurance opinion

No audits have concluded with a ‘Limited’ or ‘No’ Assurance Opinion.

6. Planning & Resourcing

The Internal Audit Plan for 2023-24 was agreed by EMT and approved by the Audit Committee in March 2023. The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

7. Rolling Work Programme

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
2022-23 Audits (included within the annual report and opinion)								
Open Spaces – Safety Checks	G&SM	✓	✓	✓	Dec 22		Limited	
Engineering Works	SM (C)	✓	✓	✓	Sep 22	Aug 23	Limited	
2023-24 Audits								
Corporate / Governance Framework								
Performance Management Framework	ADT							Q3
Transformation Programme – Governance Arrangements	ADT	✓	✓	✓				Draft report target December 23
Corporate Governance Framework – Fraud Framework	SM (R&CS)							Q3
Programme and Project Management	SDCR&T							Q4
Commercial Activities – Appletree Holdings	SM (E&V)	✓	✓	✓	Sep 23			Final report target October 23
Business Continuity	SM (E&R)	✓	✓	✓	Jul 23			Final report target September 23

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Information Governance – Data Retention/Records Management	IG&CM							Q4
Procurement	SDCR&T	✓	✓					Draft report target December 23
Contract Management – Leisure Contract	SDCR&T							Q4
Health and Safety	SM (E&R)							Q3
Emergency Planning	SM (E&R)	✓	✓					Draft report target December 23
Risk Management	SM (FIN)							Q4
Human Resources								
Employee Benefits/Salary Sacrifice Scheme	SM (HR)	✓	✓	✓	Sep 23			Final report target October 23
Core Financial Systems								
Council Tax – Debt Management & Resident Support	SM (R&CS)	✓	✓	✓				Draft report target October 23
NNDR	SM (R&CS)	✓	✓	✓				Draft report target October 23
Accounts Payable	SM (FIN)							Q3
Income Collection and Banking	SM (FIN)	✓	✓	✓				Draft report target November 23
Information Technology								
IT – Contract Management	ICTOM							Q3-4
IT – Asset Management Follow-up	ICTOM							Q3-4
Portfolio Themes								
Homelessness – Prevention and Relief	SM (HO)	✓	✓	✓				Draft report target November 23
Housing Allocations	SM (HO)							Q3
Housing Management System	SM (HO)							Q3

Audit Review	Sponsor	Scoping	Terms of reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Housing Asset Management - Voids	SM (HM&C)							Q3
Housing Asset Management – Electrical Safety Checks	SM (HM&C)	✓	✓	✓				Draft report target October 23
Disabled Facilities Grants	ADH							Q4
Planning / Development Management – End to end process	SM (DM)							Q4
CIL/S106/Developer Obligations	SM (DM)							Q4
Environmental Services – Garden Waste Collection	ADPO	✓	✓	✓				Draft report target December 23
Licencing	SM (E&R)							Q4
Parking and Enforcement	EE&AM							Q3
Clean Streets – Enforcement	EE&AM							Q3
Keyhaven – Inspection/Enforcement	SM (C)							Q4
Telecare	SM (EM&S)							Q4
Changing Places Grant **	SDCR&T	✓	n/a	✓	n/a	Sep 23	n/a	Grant certified

Annex 1 - Adjustments to the plan

Audit reviews added to the plan (included in rolling work programme above)	Comment
Business Continuity *	Carried forward from 2022-23 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Housing Asset Management – Electrical Safety Checks *	Carried forward from 2022-23 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Changing Places Grant **	DLUHC changing places grant requiring certification that usage is in line with the grant conditions.

Audit reviews removed from the plan (excluded from rolling work programme)	Comment
HR - Performance Management Reviews **	Defer the review to 2024-25 to align with the approval of the new/refreshed Corporate Plan and subsequent development / cascade of performance measures to individual performance management reviews.

* Agreed July 2023

** Proposed October 2023

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AUDIT COMMITTEE 27 OCTOBER 2023

TREASURY MANAGEMENT MID-YEAR REPORT 2023/24

1. PURPOSE

- 1.1. New Forest District Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021 which requires the council to approve, as a minimum, four treasury management reports a year, including an annual strategy and outturn report.

2. SUMMARY

- 2.1. This report provides an update on treasury management activity in the first half of 2023/24 and meets the requirement in the 2021 Code, mandatory from 1 April 2023, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Council's normal Financial Monitoring report.
- 2.2. The Council's Treasury Management Strategy was most recently updated and approved at a meeting of Full Council in February 2023. The Council has borrowed and invested sums of money and is therefore exposed 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 remains central to the Council's treasury management strategy.
- 2.3. Treasury management in the context of this report is defined as:

“The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 2.4. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

3. EXTERNAL CONTEXT

- 3.1. The following sections outline the key economic themes in the UK against which investment and borrowing decisions have been made so far in 2023/24.

Economic commentary

- 3.2. UK inflation has remained high over the period, keeping market expectations elevated of how much further the Bank of England (BoE)

would hike rates. The Bank of England's (BoE) Monetary Policy Committee (MPC) continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August 2023, however, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed by the BoE deciding to keep Bank Rate on hold at 5.25% in September 2023.

- 3.3. Economic growth in the UK remained relatively weak over the period. In calendar Quarter 2 2023, the economy expanded by 0.4%, beating market expectations of a 0.2% increase. However, monthly Gross Domestic Product (GDP) data showed a 0.5% contraction in July 2023, which was the largest fall to date this calendar year and worse than the 0.2% decline predicted.
- 3.4. Although still high, inflation has fallen from its peak as annual headline CPI (Consumer Prices Index) declined to 6.7% in July 2023 from 6.8% in the previous month against market expectations for a rise. The largest downward contribution came from food prices.
- 3.5. Following the September MPC meeting, Arlingclose modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate.

Financial markets

- 3.6. Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak. Gilt yields fell towards the end of the period.

Credit review

- 3.7. In March 2023 Arlingclose completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank, and the purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues. As a result, Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days for unsecured investments. This stance continued to be maintained during Quarter 2 of the financial year.
- 3.8. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and no changes were made to recommended bank durations over Quarter 2 of the financial year. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. Northern Trust Corporation was added to the counterparty list.
- 3.9. Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the council's counterparty list recommended by Arlingclose remains under constant review

4. LOCAL CONTEXT

- 4.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). These factors are summarised in Table 1.

Table 1: Balance Sheet Summary

	31/03/23 Balance £m	31/03/24 Forecast £m
General Fund CFR	27.5	29.0
Housing Revenue Account CFR	10.8	21.1
HRA Settlement	118.1	114.0
Total CFR	156.4	164.1
Financed By:		
External Borrowing	118.3	114.0
Internal Borrowing	38.1	50.1
Total Borrowing	156.4	164.1

- 4.2. On 31 March 2023, the Council had net borrowing of £86.8m arising from its revenue and capital income and expenditure. The treasury management position at 30 September 2023 and the change over the first half of the year is shown in Table 2.

Table 2: Treasury Management Summary

	31/03/23 Balance £m	Movement £m	30/09/23 Balance £m	31/06/23 Rate %
Long-term borrowing	(114.0)	0.0	(114.0)	3.37
Short-term borrowing	(4.3)	0.1	(4.2)	2.70
Total borrowing	(118.3)	0.1	(118.2)	3.34
Long-term investments	13.6	(4.6)	9.0	4.55
Short-term investments	3.0	8.8	11.8	4.94
Cash and cash equivalents	14.9	13.3	28.2	5.15
Total investments	31.5	17.5	49.0	4.99
Net borrowing	(86.8)	17.6	(69.2)	

Note: the figures in Table 2 are from the balance sheet in the Council's statement of accounts adjusted to exclude operational cash, market value adjustments and accrued interest.

- 4.3. The decrease in net borrowing of £17.6m shown in Table 2 reflects the normal pattern of the Council's cash balances, with higher cash balances at the start of the financial year due to the uneven pattern of grant receipts. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

5. BORROWING UPDATE

- 5.1. The Council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

- 5.2. The Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the Public Works Loan Board (PWLB).
- 5.3. Further, the Council has invested in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the Council's aim of protecting reserves from high inflation.
- 5.4. The Council is a net borrower and as stated in the Treasury Management Strategy 2023/24, the Council expects a positive liability benchmark across the forecast period, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR. Although the Council currently has taken external borrowing, this is not predicted to be sufficient to meet the CFR between 2023 and 2033 and therefore, as a result, further borrowing will be considered by the Section 151 Officer over the coming months and years, if required.
- 5.5. The Section 151 Officer will review the current pooled fund investment prior to making any external borrowing decisions.

6. BORROWING ACTIVITY

- 6.1. At 30 September 2023 the Council held £118.2m of loans. The vast majority of the outstanding loans are in relation to the resettlement of the Housing Revenue Account (HRA) in 2012/13. Outstanding loans on 30 September 2023 are summarised in Table 3.

Table 3: Borrowing Position

	31/03/23 Balance £m	Movement £m	30/09/23 Balance £m	30/09/23 Rate %	30/9/23 WAM* years
Public Works Loan Board	(118.3)	0.1	(118.2)	3.34	14.4
Total borrowing	(118.3)	0.1	(118.2)	3.34	14.4

* Weighted average maturity

Note: the figures in Table 3 are from the balance sheet in the Council's statement of accounts adjusted to exclude accrued interest.

- 6.2. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty 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.
- 6.3. £0.1m of PWLB borrowing was repaid at maturity during the period.

7. TREASURY INVESTMENT ACTIVITY

- 7.1. The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 7.2. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to date the Council's investment balances have ranged between £35.3m and £67.2m due to timing differences between income and expenditure. The investment position is shown in Table 4.

Table 4: Treasury investment position

Investments	31/03/2023 Balance £m	Movement £m	30/09/2023 Balance £m	30/09/23 Rate %	30/09/23 WAM* years
Short term Investments					
Banks and Building Societies:					
- Unsecured	5.0	(0.2)	4.8	4.48	0.00
- Secured	1.0	1.8	2.8	5.20	0.29
Money Market Funds	6.9	16.5	23.4	5.29	0.00
Government:					
- UK Treasury Bills	3.0	(2.0)	1.0	5.01	0.18
- Local Authorities	0.0	4.5	4.5	5.54	0.44
High quality bonds	0.0	1.5	1.5	5.44	0.25
Cash Plus Funds	2.0	0.0	2.0	2.85	0.01
	17.9	22.1	40.0	5.09	1.16
High yield investments					
Pooled Property Funds**	7.6	0.0	7.6	3.83	N/A
Pooled Equity Funds**	3.0	(1.5)	1.5	8.19	N/A
Pooled Multi-Asset Funds**	3.0	(3.0)	0.0	0.00	N/A
	13.6	(4.5)	9.1	4.55	N/A
TOTAL INVESTMENTS	31.5	17.6	49.1	4.99	0.07

* Weighted average maturity, excluding pooled funds

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 September 2023 based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the Council's accounts but adjusted to exclude operational cash, market value adjustments and accrued interest.

- 7.3. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority'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.

- 7.4. The security of investments has been maintained by following the counterparty policy and investment limits within the Treasury Management Strategy Statement (TMSS), taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The Council should invest in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.
- 7.5. As demonstrated by the liability benchmark shown later in this report, the Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.
- 7.6. Over this financial year to date Bank Rate has increased by 1%, from 4.25% to 5.25% as at 30 September 2023. Short term investment interest rates have risen commensurately, with 3-month rates rising to around 5.25%, and 12 month rates to nearly 6%. The interest rates on Debt Management Account Deposit Facility (DMADF) deposits also rose, ranging between 4.8% and 5.4% and Money Market Rates between 5.0% and 5.3%.
- 7.7. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5.

Table 5: Investment benchmarking (excluding pooled funds)

	Credit rating	Bail-in exposure	Weighted average maturity (days)	Rate of return
31.03.2023	AA-	75%	2	3.76%
30.09.2023	AA-	74%	33	4.95%
Similar LAs	AA-	56%	63	4.71%
All LAs	AA-	59%	13	4.79%

- 7.8. Table 5 shows the average credit rating of the portfolio has remained consistent at AA- since March 2023, whilst bail-in exposure has dropped marginally. The Council's bail-in exposure is higher than that of comparative authorities, but it should be noted that a significant proportion of liquid balances are invested in money market funds, which are technically exposed to bail-in risk but as diversified products are considered by Arlingclose to be 'bail-in risk light'. The Council continues to utilise money market funds for the high levels of liquidity they offer whilst simultaneously providing better levels of security than unsecured bank deposits. This is in conjunction with the comparatively higher rates of return they offer to other short-dated instruments. Rates of return across the portfolio as a whole have improved since March 2023 and compare favourably to other Arlingclose clients. Weighted average maturity has increased across the portfolio, largely due to investment in longer-dated instruments such as local authority loans and high quality bonds.

Externally managed pooled funds

- 7.9. £9.1m of the Council's investments are invested in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. The funds have generated an average total return of 26.3% since purchase.
- 7.10. Financial market conditions were volatile during the six-month period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets.
- 7.11. The UK, Euro area and US equity markets were initially helped by resilient growth data and diminishing talk of recession. A weaker currency and better-than-expected fundamentals were broadly supportive for UK equities.
- 7.12. During the period investor sentiment for UK commercial property was more settled than in Quarter 3 and Quarter 4 of 2022 when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be at an end. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yield, higher funding costs and the prospect of sluggish economic growth constrain the outlook for commercial property.
- 7.13. The combination of the above had a marginal negative effect on the market value of the council's strategic investments since March 2023. Based on market values at 30 September 2023, the Council currently has a £0.8m unrealised loss on the £9.1m book value of its pooled fund holdings, summarised in Table 6.

Table 6: Higher yielding investments – market value performance

	Amount invested	Market value at 30/09/23	Gain / (fall) in capital value	
			Since purchase	2023/24
	£m	£m	£m	£m
Pooled property funds	7.6	7.1	(0.5)	(0.1)
Pooled equity funds	1.5	1.2	(0.3)	(0.0)
Total	9.1	8.3	(0.8)	(0.1)

- 7.14. However, the Council's investments in pooled funds target long-term price stability and regular revenue income. As shown in Table 7, the annualised income returns have averaged 4.02% pa (per annum) since purchase, contributing to a total return of 26.26%.

Table 7: Higher yielding investments – income and total returns since purchase

	Annualised income return	Total return
	%	%
Pooled property funds	3.88	25.05
Pooled equity funds	4.49	44.89
Pooled multi-asset funds	3.90	10.68
Total	4.02	26.26

- 7.15. 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 medium- to long-term investment objectives are regularly reviewed. Following the latest review, and as outlined in the Quarter 1 report, the Council sold a combination of some of its pooled equity funds and pooled multi-assets funds in the second quarter of the year, given that prospects for income returns are currently no better than more secure cash investments. The pooled multi-asset funds are therefore included in Table 7 for indicative purposes, but these funds are no longer held.
- 7.16. The combination of these redemptions yielded a surplus of £264,000 on the original investments, which will be held against any potential future losses on the remaining pooled funds.
- 7.17. In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for 2 years until 31 March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

8. NON-TREASURY INVESTMENTS

- 8.1. The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).
- 8.2. Investment Guidance issued by DLUHC also broadens the definition of investments to include all such assets held partially or wholly for financial return.
- 8.3. This could include loans made to local businesses or the direct purchase of land or property and such loans and investments will be subject to the council’s normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.

8.4. The Council's existing non-treasury investments as at 31 March 2023 (the last valuation) are listed in Table 8.

Table 8: Non-treasury investments

	31/03/23 Asset value £m
Hythe Marina	2.553
Saxon Inn, Calmore	0.179
Meeting House Lane	0.177
New Milton Health Centre	2.629
Ampress Car Park	2.030
The Parade Salisbury Road, Totton	1.599
1-3 Queensway, New Milton	1.013
Unit 1 Nova Business Park	0.559
Drive -Thru Salisbury Road, Totton	1.382
Units 1-3 27 Salisbury Road, Totton	1.901
85 Station Road, New Milton	5.000
1b Junction Road, Totton	0.208
Unit 800 Ampress Park, Lymington	1.904
Total investment properties	21.134
Lymington Town Hall	3.645
Hardley Industrial Estate	5.088
Total income earning properties	8.733
Grand total	29.867
Property Under Construction	
Employment Land at Crow Lane	9.552

9. COMPLIANCE REPORT

9.1. The Council confirms compliance of all treasury management activities undertaken during the quarter with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

9.2. Compliance with specific investment limits is demonstrated in Table 9.

Table 9: Investment limits

	30/09/23 Actual £m	2023/24 Authorised Limit	Complied
The UK Government	1	n/a	✓
Local authorities & other government entities	4.5	Unlimited	✓
Secured investments	2.8	Unlimited	✓
Banks (unsecured)	6.3	Unlimited	✓
Building societies (unsecured)	0	£10m	✓
Registered providers	0	£10m	✓
Money market funds	23.3	Unlimited	✓
Strategic pooled funds	11.1	£50m	✓
Real estate investment trusts	0.0	£10m	✓
Other investments	0.0	£10m	✓

9.3. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 10.

Table 10: Debt limits

	H1 2023/24 Maximum £m	30/09/23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied
Total debt	118.5	118.3	207.2	225.5	✓

9.4. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. The Council can confirm that the operational boundary has not been breached during this reporting period.

10. TREASURY MANAGEMENT INDICATORS

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

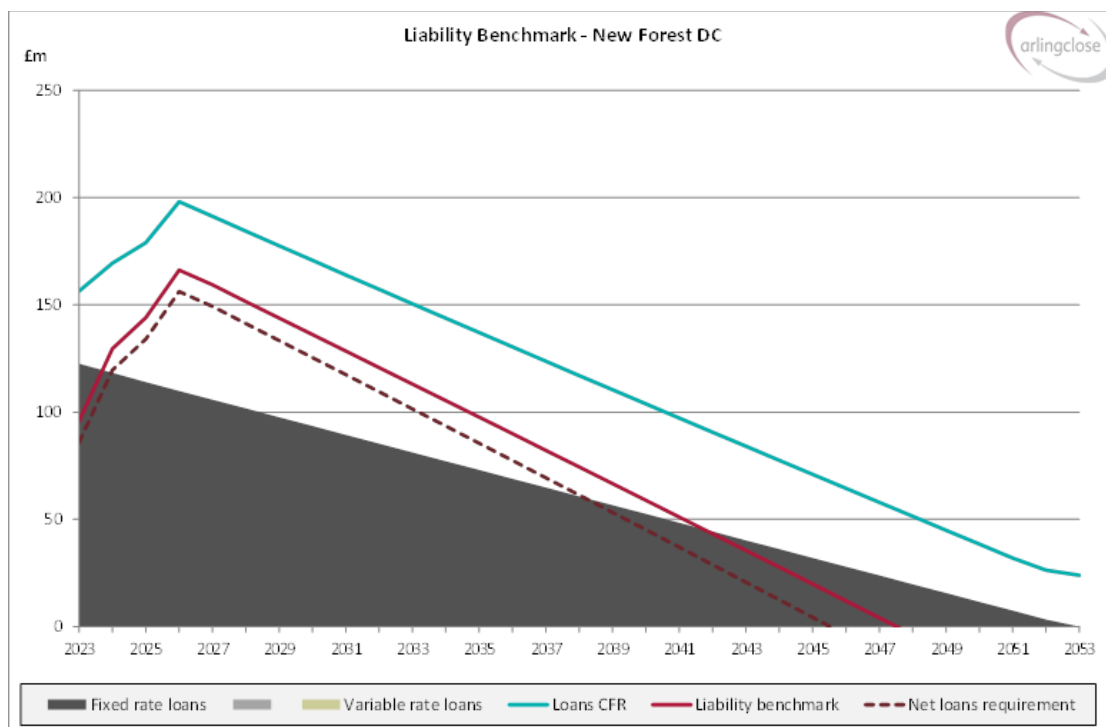
Liability benchmark

10.2. This indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 11: Liability benchmark

	31/03/23 Actual £m	31/03/24 Forecast £m	31/03/25 Forecast £m	31/03/26 Forecast £m
Loans CFR	156.4	169.4	179.0	198.1
Less: Balance sheet resources	(70.5)	(49.8)	(44.9)	(41.9)
Net loans requirement	85.9	119.6	134.1	156.2
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	95.9	129.6	144.1	166.2
Existing borrowing	118.3	114.0	109.9	109.9

Graph 1: Liability Benchmark – New Forest District Council



10.3. Table 11 and Graph 1 illustrate that by the end of 2023/24, the Council's existing borrowing is forecast to no longer be sufficient to meet the liability benchmark and the Council will need to source external borrowing if it is to meet the full delivery of its capital programme. The Council will keep this position under review and continue to take advice from Arlingclose on the most appropriate time to borrow when it is required.

Maturity structure of borrowing

10.4. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 12: Refinancing rate risk indicator

	30/06/23 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	4%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	17%	25%	0%	✓
10 years and above	65%	100%	0%	✓

Long term Treasury Management Investments

10.5. 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 total principal sum invested to final maturities beyond the period end were:

Table 13: Long term investments

	2023/24	2024/25	2025/26
Actual principal invested beyond a year	£9.1m	£9.1m	£9.1m
Limit on principal invested beyond a year	£35m	£35m	£35m
Complied	✓	✓	✓

10.6. The table includes investments in strategic pooled funds of £9.1m as although these can usually be redeemed at short notice, the Council intends to hold these investments for at least the medium-term.

Interest rate exposures

10.7. The following indicator shows the sensitivity of the council's current investments and borrowing to a change in interest rates:

Table 14: Interest rate risk indicator

	30/09/23 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates:		
Investments	£39.2m	+/- £0.4m
Borrowing	£0.0m	+/- £0.0m

11. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

11.1. None arising directly from this report.

12. RECOMMENDATIONS

Members are recommended to:

12.1. Consider the performance of the treasury function detailed in this report.

Further information	Background papers
<p>Please contact:</p> <p>Daniel O'Rourke Corporate Accountant Investments & Borrowing Hampshire County Council Daniel.O'Rourke@hants.gov.uk</p> <p>Alan Bethune Strategic Director of Corporate Resource, and Transformation Section 151 Officer New Forest District Council alan.bethune@nfdc.gov.uk</p>	<p>The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance</p> <p>Local Government Act 2003</p> <p>SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003</p> <p>Treasury Management Strategy Report 2023/24 Audit Committee – 27 January 2023 Council – 27 February 2023</p> <p>Treasury Management Q1 Report 2023/24 Audit Committee – 28 July 2023</p>

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Audit Committee – 27 October 2023

INSURANCE RENEWAL UPDATE 2023/24

1. RECOMMENDATIONS

- 1.1 That Audit Committee note the contents of this report.

2. INTRODUCTION AND PURPOSE

- 2.1 The Council operates a large insurance portfolio covering a wide range of insurable risks. The principal risks covered are Property, Combined Liability, Terrorism, Motor Fleet, Drones, Personal Accident, Travel, Crime, Engineering insurance and Inspection which are placed with the market via the Council's insurance broker, Arthur J. Gallagher (AJG) and directly with Zurich Municipal.
- 2.2 This report sets out the 2023/24 renewal terms and gives an insight into how insurance is procured by NFDC.

3. BACKGROUND

- 3.1 The Council's insurance arrangements are subject to Long Term Agreements (LTAs) whereby an insurer offers a discount in return for a guarantee to renew with them for a fixed number of years. The current LTAs are with effect from 1st April 2020 to offer annually for 3 years with the option to extend twice annually.
- 3.2 The UK insurance market has undergone a significant decrease in capacity, leading to a shift in the dynamics that now favour insurers over policyholders. This shift can be attributed to the growing demand for insurance surpassing the available supply. Several key factors have contributed to this situation. Firstly, the implementation of solvency standards for insurance companies, combined with inflationary pressures, has had a profound impact. Additionally, the financial consequences resulting from widespread global natural disasters have further exacerbated the issue. Lastly, the Covid-19 pandemic has had a detrimental effect on the financial well-being of insurers, compounding the challenges they face.

4. 2023/24 RENEWAL TERMS

- 4.1 The renewal process started in October 2022. It was led by the Council's broker, AJG, with an aim to achieve the best outcome for the forthcoming insurance period, taking into account market conditions, the existing LTAs, and the Council's claims experience. The renewal terms were presented to Hampshire Insurance Forum members (HIF) in March 2023.
- 4.2 All policies, except for certain insurance classes, have been offered renewal terms in line with the LTA, with no changes to rates. Any increases that have been observed can be attributed to adjustments in our insured sums.
- 4.3 There are, however, some classes of insurance that have not been renewed as per the LTA guidelines. A resulting rate increase has been applied across all HIF members. This increase could potentially have been steeper had NFDC not held membership with HIF, underlining the significance of collaborative work in such contexts. Provided below is a table detailing types of coverage and corresponding renewal prices:

Cover	Current Insurer	NFDC Premium 22/23	NFDC Premium 23/24
Property Damage Commercial, Commercial Combined & Business Interruption & Property Damage Leaseholders (RTB)	Protector	£187,385	£201,596
Combined Liability	Protector	£235,077	£279,820
Motor Fleet	Protector	£181,432	£181,867
Terrorism	RMP	£11,033	£12,014
Drones	Allianz	£1,650	£1,650
Engineering Insurance	ZM	£5,743	£6,312
Personal Accident	ZM	£2,216	£2,888
Business Travel	ZM	£980	£1,217
Engineering Inspection	ZM	£28,775	£30,897
Crime	ZM	£6,139	£7,919
Marine	WTW	£39,273	£39,921
Total		£699,704	£766,101

5. FINANCIAL IMPLICATIONS

- 5.1 The premiums for 2023/24 result in a £40,000 budget shortfall across the General Fund (£24,000) and Housing Revenue Account (£16,000). This additional budget requirement will be included within Financial Monitoring Reporting. The MTFP and budget planning for 2024/25 will also need to reflect this revised position.

6. ENVIRONMENTAL MATTERS AND EQUALITY & DIVERSITY IMPLICATIONS

- 6.1 There are no direct environmental or equality and diversity implications arising from this report.

7. DATA PROTECTION IMPLICATIONS

- 7.1 There are no data protection implications arising from this report.

For further information

James Clarke
Insurance and Risk Officer
Tel: 023 8028 5002
Email: James.Clarke@nfdc.gov.uk

AUDIT COMMITTEE WORK PLAN 2023 – 2024

DATE	WORK / REPORTS
26 January 2024	External Auditor's Annual Report for 21/22 Final Annual Financial Report 21/22 Housing Benefit Audit Report 22/23 Internal Audit Progress Report 23/24 RIPA Report Strategic Risk Register Update Treasury Management Strategy 24/25 Investment Strategy 24/25
22 March 2024	External Audit Results Report 22/23 Final Annual Governance Statement 22/23 Final Annual Financial Report 22/23 Internal Audit Progress Report 23/24 Internal Audit Charter 24/25 Internal Audit Plan 24/25 Review of Financial Regulations PCI DSS Update Treasury Management Monitoring Report Q3
31 May 2024	Treasury Management Out Turn Report 23/24 Draft Annual Financial Report 23/24 Draft Annual Governance Statement 23/24 Bad Debt Write Offs 23/24 Annual Fraud Report 23/24 Internal Audit Opinion Report 23/24 Code of Good Governance Review 23/24
July 2024	Annual Internal Audit Report and Opinion 2023-24 Treasury Management Update Strategic Risk Register Update
October 2024	Internal Audit Progress Report 2024-25 Treasury Management Update
January 2025	Internal Audit Progress Report 2024-25 Treasury Management Update Strategic Risk Register Update

March 2025

Internal Audit Progress Report 2024-25
Internal Audit Charter 2025-26
Internal Audit Plan 2025-26
Treasury Management Update