

# New Forest District Council

## Audit Committee

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015



Building a better  
working world

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**Section 1**

# **Executive summary**

# Executive summary – key findings

## **Audit results and other key matters**

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

This report summarises the findings from the 2014/2015 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

### **Financial statements**

- ▶ As of 14 September 2015, we expect to issue an unqualified opinion on the financial statements.
- ▶ Our audit results demonstrate, through the very few matters we have to communicate, that the Council has continued to prepare its financial statements well.

### **Value for money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.
- ▶ We have made recommendations, in section 4, on how the Council's governance framework may be improved.

### **Whole of Government Accounts**

- ▶ We are not expecting to report any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

### **Audit certificate**

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

Section 2

# Extent and purpose of our work

# Extent and purpose of our work

## The Council 's responsibilities

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

## Purpose of our work

Our audit was designed to:

- ▶ express an opinion on the 2014/2015 financial statements and the consistency of other information published with them;
- ▶ report on an exception basis on the Annual Governance Statement;
- ▶ consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion); and
- ▶ discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

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

As a component auditor, we also follow the NAO group instructions and report the results on completion of the whole of government accounts work through the Assurance Statement to the NAO and to the Council .

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

**Section 3**

# **Addressing audit risks**

# Addressing audit risks – significant audit risks

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

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>• testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• reviewing accounting estimates for evidence of management bias; and</li> <li>• evaluating the business rationale for significant unusual transactions.</li> </ul>	<p>We gained assurance that the risk of management override was sufficiently low.</p> <p>We did not identify any issues when testing the journal entries, accounting estimates and any unusual transactions.</p>
<p><b>Calculation of the non-domestic rates (NDR) appeals provision</b></p> <p>We reclassified this as a new significant risk following our review of the 2014/15 financial statements, which showed that the NDR Provision increased to:</p> <ul style="list-style-type: none"> <li>○ £4.401m (£2.860m in 2013/14) in Note 23 of the Council's accounts;</li> <li>○ £11.002m (£7.149m in 2013/14) in the Collection Fund.</li> </ul> <p>This is a national issue caused by the introduction, in the autumn budget statement, of a cut-off date of 31 March 2015 for retrospective appeals, and the consequential increase in the number of appeals received in the final quarter of the financial year. The Council has estimated that some £3.6 million of repayments are expected to be due to medical centres, of which 20% is to be paid by the Council.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>• testing the reasonableness of the NDR appeals provision in the preparation of the financial statements;</li> <li>• reviewing the underlying source systems and documents used in the calculation of the appeals provision; and</li> <li>• comparing the Council's methodology and outcome with other councils through the EY benchmarking exercise.</li> </ul>	<p>The judgements involved in the methodology for determining the appeals provision are reasonable.</p> <p>We found that the appeals provision was overstated in the Collection Fund by £0.7 million due to a calculation error.</p> <p>Our work around benchmarking did not identify the Council as an outlier.</p>



# Addressing audit risks – other audit risks

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

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<b>Other audit risks</b>		
<p><b>New NDR system in year</b></p> <p>The Council changed its NDR system from Civica to Northgate in January 2015. This is a fundamental system which collects some £64 million in business rates in the year. We tested whether the system migration has been successful.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>• reviewing the work of internal audit on the change of NDR system in year; and</li> <li>• testing that the data migration from the old system to the new system was complete and accurate.</li> </ul>	<p>We gained assurance from the outcome of internal audit's work which identified no significant issues from the change of NDR system in year.</p> <p>Our testing verified that the the data migration from the old system to the new system was complete and accurate.</p>
<p><b>Change of bank account</b></p> <p>The Council changed its bank account provider in December 2014 from the Co-operative Bank to Lloyds. Subsequently some payments were received in another Lloyds client bank account. The February 2015 bank reconciliation had outstanding items which needed to be corrected before the year end.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>• reviewing the work of internal audit on the change of bank account in year; and</li> <li>• testing the year-end bank reconciliation to ensure all the issues from the change of bank account have been resolved.</li> </ul>	<p>We gained assurance from the outcome of internal audit's work which identified no significant issues from the change of bank account.</p> <p>Our testing of the year-end bank reconciliation confirmed the coding issues from the change of bank account were resolved.</p>

Section 4

# Financial statements audit – issues and findings

# Financial statements audit – issues and misstatements arising from the audit

## Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting on 25 September 2015:
  - ▶ receipt of a Letter of Representation
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

## Uncorrected misstatements

- ▶ We identified no uncorrected misstatements within the draft financial statements.

## Corrected misstatements

- ▶ We identified the following corrected misstatement which was an error in the calculation of the NDR Appeals Provision. This reduced both the:
  - ▶ Collection Fund NDR Appeals Provision by £702,000;
  - ▶ Council's NDR Appeals Provision by £281,000.

## Amendments to disclosures

- ▶ Following the audit, the Council has made the following amendment to its disclosure in its financial statements:
  - ▶ Note 1: Accounting Policies – revision of the accounting policy for intangible assets.
  - ▶ Note 48: the trade debtors figure in the financial instruments note was inconsistent with the trade debtors note.
  - ▶ Note 49: The classification of investments in the financial instrument note was inconsistent with the balance sheet.

## Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
  - ▶ qualitative aspects of your accounting practices; estimates and disclosures;
  - ▶ matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
  - ▶ any significant difficulties encountered during the audit; and
  - ▶ other audit matters of governance interest

## Findings

- ▶ The Council prepared a comprehensive set of accounts with good supporting working papers.
- ▶ We would like to thank officers for their prompt responses to audit queries.
- ▶ We have no other matters we wish to report to Members.

# Financial statements audit – application of materiality

## Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
Planning Materiality and Tolerable error	<p>We determined planning materiality to be £1.675 million (2014: £1.995 million), which is 2% of gross expenditure reported in the accounts of £83.276 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council .</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council 's 2013/14 financial statements and no uncorrected errors.</p>
Reporting Threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £83,700 (2014: £99,700)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures. We reviewed the senior officer remuneration note and agreed all amounts back to supporting documentation. No issues were noted from this review.
- Related party transactions. We reviewed the related party transaction disclosure and also the related party declarations distributed to the senior management team. No issues were noted from this review.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

# Financial statements audit – internal control, written representations and whole of government accounts

## Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
  - ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - ▶ it is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.
- ▶ **Risk management arrangements**
  - Risk management, at the Council, is considered as part of service planning and performance reviews with the scrutiny of operational risk registers at a service level. The Council's Executive Management Team last formally considered the Council's Strategic Risk Register on 15 September 2014.
  - The Audit Committee's Terms of Reference states that the Committee is "To monitor the effective development and operation of risk management and governance in the Council". It receives an annual report on Strategic Risk Management in September each year. Interestingly, Treasury management is considered by the Audit Committee every six months.

- The last Risk Management report to the Audit Committee was in September 2014 on the Risk Management Strategy (dated September 2013) and Strategic Risk Register (dated September 2014).
- We understand that there are plans for the Council's Risk Management arrangements to be reviewed, as part of the review of the Corporate Plan, post the May 2015 elections. However, there is no planned progress report to be taken to the September Audit Committee on the development of risk management arrangements even though it is part of the Audit Committee's workplan and duties.
- It would be appropriate for Audit Committee to have a better oversight of the effectiveness of the Council's Risk management arrangements. We suggest that the Audit Committee receive bi-annual reports on Risk Management. The Committee should be kept informed on the progress of the review of the Council's Risk Management Strategy, processes and outcomes, in particular considering how the new arrangements reflect good practice adopted by other councils.

## Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters of judgment.

## Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

**Section 5**

# **Arrangements to secure economy, efficiency and effectiveness**

# Arrangements to secure economy, efficiency and effectiveness

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

## Criterion 1 – arrangements for securing financial resilience

- ▶ 'Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ We identified one significant risk in relation to this criterion, in terms of the "Delivery of a Sustainable Medium Term Financial Plan".
- ▶ Our approach focused on:
  - Assessment of whether the Council has good systems and processes in place to manage its financial risks and opportunities effectively.
  - Assessing the robustness of financial plans, including the assumptions made in the Medium Term Financial Plan (MTFP).
- ▶ In summary, we found that the Council has:
  - successfully delivered savings in 2014/15 through improved productivity and therefore contributed more than planned to its healthy level of reserves; and
  - produced a robust MTFP, underpinned by reasonable assumptions, to continue to manage its financial risks and opportunities in the future.
- ▶ We have no issues to report in relation to this criterion. We discuss our findings in more detail overleaf.

## Criterion 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criterion.
- ▶ Our approach focused on:
  - Reviewing the Audit Commission's value for money profile data to understand how well the Council continues to deliver services in the context of reduced funding.
  - Reviewing the effectiveness of the Council's risk management arrangements, including a review of risk registers and the potential impact of assessed risks.
- ▶ We found that the Council:
  - continues to deliver its services, as outlined in its corporate plan, with less funding; and
  - has adequate risk management arrangements as risk management is built into service planning and performance with scrutiny of risk registers at a service level.
- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

# Addressing audit risks – significant VFM risks

We reported VFM Financial Resilience as an “Other Risk” in the Audit Plan we presented to you on 26 June. However, we reclassified the risk as significant during the fieldwork phase of our audit in July as we found that the savings requirements for next three years of £2.454 million is greater than our planning materiality of £1.675 million.

A significant audit risk, in the context of the value for money conclusion, is the risk that the auditor may issue the wrong value for money conclusion. Where we identify a significant value for money conclusion risk we undertake additional audit work to enable us to reach an appropriate conclusion.

Here, we set out how we have gained audit assurance over this issue.

Significant VFM risk identified	Procedures performed	Assurance gained and issues arising
<b>Financial Resilience - Delivery of a Sustainable Medium Term Financial Plan</b>		
<p>Financial challenges continue for the Council with further reductions in the level of central government funding.</p> <p>To meet these challenges, the Council must continue to improve its efficiency and productivity, reduce its costs, and have sustainable financial plans to ensure they are financially resilient.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>Assessment of whether the Council has good systems and processes in place to manage its financial risks and opportunities effectively.</li> <li>Assessing the robustness of financial plans, including the assumptions made in the Medium Term Financial Plan.</li> </ul>	<ul style="list-style-type: none"> <li>The Council achieved net savings for the 2014/15 year of £1.277 million, some 6% of net expenditure. This allowed additions to earmarked reserves of £300,000 and £977,000 to the capital programme reserve. The total of the Council's capital programme reserve is at a healthy level with funds of some £9.957 million set aside from the General Reserve to provide for financing of future years' capital projects.</li> <li>The Medium Term Financial Plan, looking to future years, also includes a level of contingency within the assumptions made.</li> <li>We reviewed the MTFP and looked at the MTFP assumptions and the level of detail underpinning the savings identified over medium-term. The MTFP is well documented and underpinned by reasonable assumptions.</li> <li>However, there are risks associated with delivery of savings. Plans have been developed to mitigate these risks for 2015/16. 2016/17 onwards will be more difficult with a £793,000 savings gap in that year and a further £1.661 million savings gap in 2017/18. The outcome of the government spending review in autumn 2015 may also impact on the MTFP.</li> <li>The Council has general fund reserves of £2.036 million, which are available to support service budgets during the continuing uncertain times.</li> <li>Despite the continuing uncertainty of the current economic climate and a further reduction of £1.193 million in government formula funding grant, the Council has set a balanced budget for 2015/16 without needing to increase council tax. This has largely been possible due to the ongoing implementation of the Council's savings and efficiencies programme.</li> </ul>



**Section 6**

# **Independence and audit fees**

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 26 June 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 25 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 26 June 2015.

## Audit fees

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

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation
	£	£	
Audit Fee: Code work	73,076	73,076	0
Grant claims	6,570	5,670	900
Non-Audit work	0	0	0

- ▶ Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission. The variation is due for the NDR claim which was not included in the scale fee. This will be reviewed in light of the work required in 2014/15.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

**Section 7**

# **Appendices**

# Appendix A – corrected audit misstatements

- ▶ The following corrected misstatements, greater than £83,700 (typically we communicate those corrected misstatements greater than tolerable error unless those charged with governance specifically request us to communicate items above a lower threshold) have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

## Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
1. NDR Appeals Provision – Collection Fund	Reduction in NDR Provision	F		(702,000)
2. NDR Appeals Provision – Collection Fund deficit	Reduction in NDR Provision	F	702,000	
3. NDR Appeals Provision - NFDC accounts	Reduction in Provision (40% share for NFDC)	F		(281,000)
4. NDR Appeals Provision - NFDC accounts	Reduction in Provision (40% share for NFDC)	F	281,000	

## Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

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

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