



New Forest District Council

**Auditor's Annual Report
Year ended 31 March 2021**

27 June 2022



EY

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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 April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee 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 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.

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

Section 1

Executive Summary



Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Authority's:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 4 May 2022
Going concern	We concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	We concluded that other information in the Annual Financial Report 2020/21 and published with the financial statements was consistent with the audited accounts.
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We concluded that we are satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We have had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 17 January 2022 and presented this to the Council at its Audit Committee meeting on 28 January 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	<p>We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.</p> <p>We expect that the Council will remain below the de-minimis for full procedures, which in the prior year was set at £500m. Therefore, we anticipate having no issues to report.</p>

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Executive Head of Financial & Corporate Services. We include details of the audit fees in Appendix 1.

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

Kevin Suter

Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities



Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Planning Report that we issued on 7 July 2021 and presented to the Audit Committee. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit – New Forest District Council

Key issues

We have issued an unqualified audit opinion on the Authority and Group 2020/21 financial statements.

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

On 4 May 2022, we issued an unqualified opinion on the Authority and Group financial statements. We reported our detailed findings to the Council at their Audit Committee meeting on 28 January 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Misstatements due to fraud or error - management override of controls

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.

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

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.

Conclusion

We did not identify any material weaknesses in controls or evidence of material management override.

We did not identify any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We did not identify any unusual or unsupported journals, or other adjustments made in preparing the financial statements.

We did not identify 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 did not identify 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.

Financial Statement Audit – New Forest District Council (continued)

Significant risk	Conclusion
<p>Valuation of Land & Buildings (EUV/FV) including Investment Property</p> <p>Property, Plant and Equipment land and buildings (L&B) measured at Fair Value or Existing Use Value (EUV) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end L&B and IP balances held in the balance sheet.</p> <p>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.</p> <p>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.</p>	<p>We identified 1 misstatement in relation to the valuation of Salisbury Road Parade. We assessed the value to be overstated as the yield was considered to be too low, and no purchasers costs were included in the valuation. However, we considered the valuation of PPE as a whole to be materially correct.</p> <p>The cycle of valuations was appropriate and we did not identify any material misstatements for assets not revalued.</p> <p>We considered the useful economic lives of the assets to be reasonable and all accounting entries were correctly processed in the financial statements.</p>
<p>New Financial Ledger</p> <p>Under ISA 315, a change in the IT environment may indicate a risk of material misstatement.</p> <p>From the 1/4/2020 the Council introduced its new financial management system. Data was migrated over to the new system and the Council's 2020/21 financial statements was prepared using data taken from the new system.</p> <p>We therefore consider there to be a significant risk that the financial statements could be materially misstated if data has not been appropriately transferred from the old system to the new.</p>	<p>We did not identify any material weaknesses in controls or evidence of errors in the data transfer of opening balances to the new system.</p> <p>We identified no issues arising from the work performed by internal audit relating to the system changeover</p>

Financial Statement Audit – New Forest District Council (continued)

Significant risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition – Compensation Scheme for Lost Sales Fees and Charges</p> <p>As one of the responses to the Covid-19 pandemic and its impact on Local Authority finances, the Government introduced a reimbursement scheme for lost fees and charges income. After an initial 5% reduction for annual variability, local authorities are funded for 75% of their claimed losses. There is both incentive and opportunity for local authorities to inflate the returns to Central Government, and claim for funds that they are not entitled to under the scheme. There is also the potential for error.</p>	<p>We considered the Council's process for completing the grant return to Central Government was reasonable and appropriate.</p> <p>We did not identify any instances of inappropriate judgements being applied, the guidance was followed and supported by relevant and appropriate evidence.</p> <p>We confirmed the grant was correctly accounted for in the financial statements.</p>
Other area of audit focus	Conclusion
<p>Valuation of Land and Buildings (DRC)</p> <p>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.</p> <p>Assets valued at DRC are not as significantly affected by Covid-19 as those assets valued at fair value or existing use value, but there is still a high level of judgement.</p>	<p>Our testing identified no material misstatements.</p> <p>Assets have been revalued within a 5 year cycle, and assets not revalued in year were considered to be materially correct.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p>
<p>Valuation of Council Dwellings</p> <p>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.</p>	<p>Our testing identified no material misstatements.</p> <p>The Beacon Methodology has been correctly applied and properties have been assessed to be appropriately classified within each beacon.</p> <p>Council dwelling valuations are in line with current market data.</p> <p>We did not identify any instances of inappropriate judgements being applied.</p>

Financial Statement Audit – New Forest District Council (continued)

Other area of audit focus	Conclusion
<p>Pension liability valuation</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Our testing has identified no material misstatements.</p> <p>We concluded that we could rely on the work of the Pension Fund actuary. 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.</p> <p>We confirmed the values and entries from the actuarial report have been fully reflected in the Council's financial statements.</p> <p>The results of the EY pensions specialist confirmed the actuarial estimate of the gross pension liability to be accurate within a reasonable range.</p>
<p>Accounting for Covid-19 related government grants</p> <p>Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.</p> <p>The Council needed to review each of these to establish how they needed to be accounted for. It needed to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needed to assess whether there were any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.</p>	<p>We requested the Council amend one grant to be classed as principal rather than agent. This amendment added £3.0m to both income and expenditure in the cost of services.</p> <p>For all other grants we agreed with the assessment made and the subsequent disclosure in the accounts.</p>

Financial Statement Audit – New Forest District Council (continued)

Other area of audit focus	Conclusion
<p>Group Accounts Preparation</p> <p>For the first time, the council prepared a Group Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet which consolidate the accounting entries for Appletree Property Holdings Group Ltd. There is a risk that the consolidation has not been correctly performed or appropriate disclosures have not been made in the accounts.</p>	<p>Within the published set of draft group accounts we identified issues in relation to the group MIRS, that:</p> <ul style="list-style-type: none">• The format was not in line with expectation as per the CIPFA Code;• An expected line for adjustments between group accounts and authority accounts was missing; and• It did not agree to the group CIES or Balance Sheet. <p>There were no associated disclosure notes, including where we would expect them for the areas where the group balances materially differ from the single entity balances.</p> <p>These items were corrected in the final version of the accounts.</p>

Financial Statement Audit – New Forest District Council (continued)

Audit differences

We identified a number of misstatements in disclosures which management corrected including in the preparation of the group accounts.

We report any corrected misstatements greater than our performance materiality of £1.78m. There was one corrected misstatement in this regard:

Covid-19 grant income and expenditure to be classed as principal rather than agent, adjusted as follows:

- Expenditure £3.0m
- Grants credited to cost of services (£3.0m)

We report any uncorrected misstatements greater than our nominal value of £123k. There was one uncorrected misstatements to bring to your attention:

- PPE Valuation (Salisbury Road Parade) judgemental misstatement (overstatement) of £0.153m

As this difference is not above our materiality level, we conclude that the balance is materially fairly stated and do not anticipate modifying our audit opinion in respect of these matters.

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	Thresholds applied
Planning materiality	We determined planning materiality to be £2.37m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Council all audit differences in excess of £123,000.

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 audited all disclosures and undertook procedures to confirm material completeness
- ▶ Related party transactions. We audited all disclosures and undertook procedures to confirm material completeness

Section 4

Value for Money



Value for Money (VFM)

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code of Audit Practice and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 28 January 2022 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of the Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work in May 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we have no matters to report by exception in our audit report on the financial statements.

Our VFM commentary highlights relevant issues for the Council and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- 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.
- 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.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

The Council has the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

This included pressures created by the pandemic

Financial sustainability

How the body ensures that it identifies all significant financial pressures that are relevant to its short term and medium-term plans and builds these into them

New Forest District Council has various methods in place to ensure it can identify financial pressures, including keeping updated budget reports, to ensure the Council is on plan to meet budget requirements. The Council has a Narrative Statement which shows the annual comparison between budgeted and actual I&E, which assists in showing whether there are financial pressures. We note that following the impacts of Covid-19, an emergency budget was released in response. The Council was required to put in place short and medium term places in order to respond to the increased financial pressures and take into account the additional Government support that was to be provided. Prior to the Covid-19 pandemic, the Council had already identified budgetary pressures to be addressed, due to the reducing levels of Central Government funding. The Council has looked to increase its levels of income generation in response to this, which at the same time meets the service needs of the District. Responses have included an increase in the number of investment properties and the creation of a wholly owned housing company.

Regular meetings are held, and minutes are available on the Council's website showing their review of financial pressures. A risk register is kept and updated annually by portfolio, which includes the potential impacts on the Council and actions to mitigate those risks. Significant risks identified include Covid-19 uncertainties and the one year financial settlement from Government. These are mitigated through regular financial monitoring and robust budgeting arrangements.

Financial sustainability (continued)

There are ongoing financial pressures in the local government sector, which has resulted in several councils making significant commercial investments using cheap borrowing through the 'Public Works Loan Board' (PWLB). New Forest District Council have not however used this approach to finance any capital or commercial programmes. In 2012/13 the Council borrowed £142.7 million from the PWLB for the Housing Revenue Account financing settlement. This is being paid down in instalments and the outstanding balance currently stands at £126.9m of which £4.3m is due to be repaid in the coming year (consistent with the prior year).

New Forest District Council has developed a small portfolio of investment properties, and has established a housing company in order to generate a return on cash at greater levels than current bank rates. However, they have not pursued investments in other riskier commercial ventures.

The long term assets of the Council, which reflect its more commercial activity were as follows at 31/3/21:

Significant account	Balance	Description of asset
Investment property	£12.4m	The council hold a varied portfolio of investment property, including a car park, marina, industrial units, offices and retail. The investment properties that would be considered the higher risk would be retail assets which stands at: <ul style="list-style-type: none"> Retail - £1.4m
Long term investment	£17.1m	Includes a £0.6m investment in wholly owned housing company, £7.5m in pooled property funds and £6.0m in Money Market Funds
Short term investment	£25.0m	All ST investments held as bonds or short term fixed interest deposits with either banks or other Local Authorities

We do not consider the above investments to be unusual for a Local Government body and not indicative of a higher risk profile. The Council sets out its investment strategy annually, which sets out the aims and objectives of the investment, namely helping supporting the New Forest economy and community and making a profit that will be spent on local public services. There are approved limits (£30m Investment properties, £10m Housing Company) on spending which has been agreed as set out in the strategy. All spending has been funded by internal borrowing.

The original 20/21 budget was superseded by an emergency budget in year as the impacts of Covid-19 and subsequent lockdowns unfolded. The budget for 21/22 and the Medium Term Financial Plan for 21/22 onwards have since incorporated these Covid-19 pressures and factored in Central Government's C-19 grants which have help to alleviate the pressures on the Council.

Financial sustainability (continued)

The Council have not flagged a material uncertainty in the going concern basis of preparation disclosure in its financial statements around its ability to continue providing the current level of services, this has been supported within the Going Concern note itself as well as their submitted cashflow forecast to end of April 2023.

The annual budget for 21/22 and Medium Term Financial plan take into account the continued financial pressures but also the support provided by central government in relation to Covid-19. The Council tax increase of 2.8% is also accounted for, as well as the ongoing analysis for savings measures which is required in order to balance the budget in the medium to long term.

For Interest Rates and Investments and Borrowing the Council has a Treasury Management strategy. Regular monitoring reports keep track of Treasury performance. The management strategy confirms the changes to the PWLB lending criteria which precludes a local authority from borrowing from PWLB for any purpose if it plans to purchase assets primarily for yield, but the Borrowing Strategy confirms the Council has no such plans.

The Council also has a strategic risk register, which includes documenting financing pressures. Financial uncertainty arising from ongoing COVID-19 crisis and one year only financial settlement is noted as a high risk, but current controls including Robust financial monitoring and reporting arrangements, prudent financial planning, government grants/support are noted to keep this risk below a Red rating.

How the body plans to bridge its funding gaps and identifies achievable savings

The 2020/21 Narrative Report in the Annual Financial Report notes the following in relation to potential funding gaps:

The latest Medium Term Financial Plan, that accompanied the setting of the 2021/22 budget, highlighted the likely impact that the Fair Funding Review and the potential that a 'hard' Business Rates reset will have on the Council's finances. Despite this, the plan outlined options to address the funding gap and demonstrate the ability to set a balanced budget through to 2023/24. Options include efficiency savings, the generation of new additional income through the Commercial and Residential Property Strategies and Council Tax increases.

The Council maintains the General Fund Reserve at £3m. There are also a number of earmarked reserves with a total balance of £31.7m (at 31/3/21) to meet specific liabilities when they fall due.

Financial sustainability (continued)

The Council set a balanced budget for 20/21 and more recently for 21/22. For 21/22 this balanced budget was achieved through utilising £138k from Budget Equalisation Reserves, and through a Band D Council Tax increase of £5 (2.8%). At year end 20/21 the Council performed better than expected against budget due to additional Central Govt. Covid-19 grants, which more than offset negative variations to budget. However, this is not expected to be a continuing trend.

In future years, as per the MTFP, there are additional budget shortfalls totalling £2.9m which are expected to be mitigated through:

- successful implementation of the commercial and residential property strategies to bring valuable new sources of additional income into the Council,
- successful implementation and delivery of savings targeted from reviews underway,
- successful identification of further efficiencies to be identified during 2021/22 to take effect over the medium term,
- Council's ability to maximise its revenues through local taxation; and
- prudent use of budget equalisation reserves

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The annual budget and MTFS sit alongside and facilitate the Council's Corporate Plan for 2020-24. The Council Plan was developed collaboratively with elected members, staff, partners and other stakeholders to prioritise the most important areas the Council needs to focus on in the future. This is done for the Council's limited resources to be spent on the areas where it is needed most. It is considered in parallel with the budget. As it is aligned to the budget and MTFP, it is intended to act as the framework in which investment decisions can be made based on agreed priorities and the outcomes the Council wants to achieve, split into the following portfolio areas:

- CP1 - Leader and Corporate Affairs - 'Delivering a prosperous New Forest and putting our community first'
- CP2 - Planning and Infrastructure - 'Encouraging development that meets local needs and enhances the special qualities of the environment'
- CP3 – Housing Services - 'Creating balanced communities and housing options that are affordable and sustainable'
- CP4 - Community Affairs - 'Keeping our communities safe and listening to their needs'

Financial sustainability (continued)

- CP5 - Finance, Investment and Corporate Services - 'Enabling service provision and ensuring value for money for the council tax payer'
- CP6 – Leisure and Wellbeing - 'Improving the health and wellbeing of our community'
- CP7 - Environment and Regulatory Services - 'Working to tackle climate change and enhancing our special environment'
- CP8 – Economic Development - 'Helping local businesses to grow and prosper'

The Council's overriding objective is to provide services to residents in the area. The corporate plan details the overall vision of NFDC, with priorities being outlined for each of the service lines.

The process of preparing the budget begins with using approved MTFP and updating with more detailed information as this becomes known. The financial and delivery performance against the Corporate plan priorities is performed quarterly. This document also provides monitoring of the overall financial performance against budget, Capital spend and project management reports. Where this performance information suggests a financial impact this is reflected within the proposed budget.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Also see the commentary against sub-criteria 1. above for how the MTFP and budget is derived. An example of the other plans being incorporated into budgets is evidence by the HRA budget for 20-21. This budget includes details of the HRA capital programme, with increases of £13m in the development strategy to be invested in additional homes, increasing to £20m in the subsequent 2 years. This is in line with the Council's new Housing Strategy which aims to deliver at least 600 additional homes 2018-2026.

Projections on the planned level of capital spending, borrowing and interest rates are considered each time the MTFP is updated.

Financial sustainability (continued)

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

See commentary above and links to related evidence. The Council has regularly reviews and monitors potential risks to financial resilience. We consider there to be no specific risks to NFDC that are outside the normal risks faced by all local government bodies. The main risks to the Council's financial resilience are driven by:

- Reduced Government funding
- Reliance on strategic partners to deliver services and projects
- Financial impact of a pandemic, including national and local budget pressures
- Macro economy, including Brexit
- Failure to achieve income targets
- Inflation rises

During the Covid-19 pandemic, the Authority demonstrated its financial resilience through the publication of the emergency budget during 20/21, as it became clear the assumptions used in the original budget were no longer adequate. Portfolio holders updated Cabinet regularly through the year, keeping track of the estimated financial impact of ongoing changes with lockdowns and additional Government grants.

Governance

How the body monitors and assessed risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council has sought to develop systems to identify, evaluate and mitigate risks which threaten its Council's ability to meet its objectives to deliver services to the public. To ensure that risks are appropriately mitigated, a Risk Register has been developed. These risks are regularly reviewed by NFDC. The register details the risks facing the Council and the impact on critical services. The Strategic Risk Register is managed by the Council's Executive Management Team (EMT) and Portfolio leads. It is updated for newly stated risks and ongoing matters on a regular basis. This risk register is formally agreed by Cabinet and also reviewed by the Audit Committee who make comments when required to Cabinet on the efficacy of the arrangements for managing risk at the council.

Governance (continued)

We have reviewed the risk register for March 2021 as taken to Cabinet. The key risks (red rated) identified in the risk register which would impact our Vfm work include:

- Long term negative impact on the local community and economy resulting from Covid-19
- Loss of annual Government Homeless, Rough Sleeper Initiative (RSI) and Discretionary Housing Payments (DHP) funding
- Loss of Housing Revenue Account (HRA) income through increase in rent arrears and void rent loss
- Changes in the Housing Market, valuations and legislation affecting housing development programmes
- Financial uncertainty arising from ongoing Covid-19 crisis and one year only financial settlement
- Insufficient resources to provide frontline services to the same staffing levels

Several of these items have been published at the height of Covid-19 and there has since been further clarity on available funding and improved forecasting as further evidence became available on the impacts of the pandemic. Other areas are all considered to be medium risks due to the mitigations the Council have been able to put in place, which includes the regular performance monitoring that occurs in each of these areas. Financial risks are rated as a medium risk due to the mitigation of the Council's strong levels of reserves.

The Council has an established anti-fraud and corruption strategy, anti-money laundering policy and whistle-blowing arrangements that are accessible on its website, as has been documented in our Entity Level Controls work.

Those charged with governance and all officers have access to a e-learning that outlines NFDC's fraud-related policies, and that this must be completed every two years.

There is an established internal audit function, performed by the Southern Internal Audit Partnership (SIAP) and programme of work and an annual opinion on internal control is given by the Chief Internal Auditor. There is also an Internal Audit Charter which describes the purpose, authority and responsibility of internal audit activity. Internal audit set out their testing approach at the beginning of each financial year, detailing the areas they will focus on. The audit plan has been developed having regard to the Council's 'Vision, Priorities and Values', the Council's risk management framework and areas of Corporate/National significance such as Climate Change.

The Chief Internal Auditor opinion for 2020/21 provided reasonable assurance on NFDC's framework of governance, risk management and control.

Governance (continued)

How the body approaches and carries out its annual budget setting process

The budget is derived both bottom-up and top-down. The budget for 2019/20 plus any in year permanent budget approvals was rolled forward as a starting budget for 2020/21. Meetings are then held with managers where they make changes to the starting budget as they see appropriate, based on their forecasts. Changes are brought back to Finance for challenge. Consultation is undertaken with the Portfolio Holders and scrutiny is offered by the Corporate and Housing Overview and Scrutiny Panels in specific aspects of the budget.

The budget is reviewed quarterly, and where significant changes are identified in year which results in the original budget being no longer reflective of the actual conditions in year, the budget is updated. This was the case for the 20/21 budget where impacts of the Covid-19 pandemic meant the original assumptions in the budget were no longer viable and an emergency budget was required. This budget was updated quarterly as further information became available. and these updated assumptions have been amended as more information became available during the pandemic. For the 21/22 budget the impacts of Covid-19 have become more clear, as well as Central Government support. This allowed the Council to set the 21/22 budget in February 2021, and has not required additional amendment in year.

NFDC maintain a general balance at their minimum reserve level of £3m. In addition to the general fund balance, the Council also hold a number of earmarked reserves to cover unexpected liabilities/increases in costs. During the year, they report internally on the performance of the general fund, and earmarked reserves. In the 19/20 accounts these reserves were as follows;

- General Fund: £3,000k
- Earmarked reserves: £19,314k
- HRA Balance: £1,000k

At 31/3/21 the Council's reserves position is as follows per the financial statements:

- General Fund: £3,000k
- Earmarked Reserves: £31,686k
- HRA Balance: £1,000k

A further £3,571k was also held in the Capital Receipts Reserve which is available for use to support the future capital spending of the Council.

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Financial Monitoring is achieved by regular budgetary control reports to nominated budget holders, EMT, the relevant portfolio holder, and Cabinet. All elected members have access to Cabinet Agendas and the financial reports; a process is in place to enable members to request additional, more detailed information and question any financial issues. Strong Overview and Scrutiny arrangements in place with an annual report of work carried out presented to Council.

There is a requirement to monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of the Council's overall financial and performance management reporting process. It is the responsibility of the EMT and Portfolio heads to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Finance team. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Executive Head of Financial & Corporate Services to any problems.

The Council's financial performance (revenue and capital) are formally reported quarterly through a Financial Monitoring Report.

There is also an internal audit function which provides an interim report and a year-end report to confirm that control are in place properly. We have obtained the report from internal audit at year end, which reported 1 item with limited assurance, relating to Payroll Increments. Internal audit provided the following detail as to why limited assurance was given:

There is no formal, documented process for the Management Team to utilise covering the process to advise Payroll of incremental pay awards or the timeframes the annual process usually follows. There are three differing processes for confirming if increments apply, depending upon the seniority of the staff members. Whilst an e-mail was sent to EMT and Service Managers outlining requirements and timeframes, the 2020 communication was not sufficiently comprehensive, did not cover all three of the differing processes and was not initially cascaded to all relevant staff. Whilst the Payroll Managers have process documentation detailing how to run the bulk update process for Spinal Column Points (SCP) increments within iTrent, there is no documentation detailing the entire increment process, including the sequential order of required actions, who within Payroll is assigned responsibility for actioning, or when action is required by.

Governance (continued)

For the 2020 increments, the processes lacked structure when collating management responses, double-checking interpretations, and confirming that they have been actioned. No reconciliations were carried out to ensure that the spreadsheet covered the expected number of posts nor was the final SCP position within iTrent for all staff cross-referenced back to the actions identified in the spreadsheet.

The details provided by Internal Audit provide assurance that, in our judgement, does not indicate a significant weakness for our assessment of VFM arrangements.

Statutory financial reporting is prepared at year-end based on the CIPFA requirements. The annual governance statement and the narrative statement confirm that the accounts are prepared in accordance with the relevant financial CIPFA code.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Decisions are taken by the committees of the Council, and are informed by detailed reports produced by officers, with key decisions on Council Policy taken by the Cabinet or Council in accordance with the Council's constitution. We note that there is Cabinet meeting per month, to ensure leadership is regularly updated on NFDC's position.

There are established Overview and Scrutiny Panels and Audit Committee which is the body formally charged with governance at the Council. The role of the Scrutiny Panels is to undertake reviews of the Council's policies, either on their own initiative or at the request of the Council or the Cabinet, advise on policy development, and review executive decisions to make sure the Cabinet does not exceed its powers. The Audit Committee combines both audit functions, for example considering the work of both internal and external audit and the adequacy of risk management arrangements, and governance functions, for example promoting and maintaining high standards of conduct by Councillors and any co-opted members, and assisting the Councillors and co-opted members to observe the Members' Code of Conduct.

Governance (continued)

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interest)

The responsibilities and statutory requirements of all officers and members is embedded in the Constitution. All significant actions by the Council which may have legal implications either require authorisation by the Monitoring Officer or individuals specifically delegated to act on behalf of the Monitoring Officer as set out in the Council's decision-making rules. Decision makers are also required to act within the Council's Standing Orders and scheme of delegation which makes provision for legal and constitutional advice to inform such decisions. The Council's Constitution contains a number of check points at which officers are able to identify whether decisions are being taken in compliance with the prescribed rules which ensure legal compliance. The Council has also adopted a Code of Corporate Governance (the Code) which is a framework based on guidance published in April 2016 by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) around 'Delivering Good Governance in Local Government'. The Code is underpinned by the 7 core principles in the CIPFA/SOLACE framework, and is comprised of policies, procedures, behaviours and values by which the authority is controlled and governed. These Codes provide the structures and guidance that members and employees require in order to ensure effective governance across the Council. It also sets out the Council's expectations and arrangements in place to help ensure that the Council conducts its business in accordance with the law and proper standards. One of its objectives is to ensure and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

There is an established Employee Code of Conduct, Member Code of Conduct and Protocol for Member/Officer Relations. The Members' code of conduct is also set out in Section 5 of the Constitution . Both members and officers are also required to declare related party interests which we consider as part of our work to gain assurance over related party transactions. Member interests are publicly available on the Council's website.

There are appropriate policies for such matters as accepting new business, conflicts of interest, and security practices that are adequately communicated throughout the organization. The entity's corporate culture emphasizes the importance of integrity and ethical behaviour. Management takes appropriate action in response to departures from approved policies and procedures or the code of conduct.

Governance (continued)

Records are maintained of all instances of fraud and irregularity reported for monitoring and analytical purposes. New Forest District Council employs a Corporate Fraud Officer who is responsible for providing both reactive fraud and irregularity investigations and proactive fraud work in line with the Anti-fraud, Bribery and Corruption Strategy. The internal audit plan contains a provision to monitor the outcomes of this work and review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis. Reported investigations into suspected and alleged acts of theft, fraud or corruption, are undertaken professionally and sensitively by appropriately trained staff. The decision on whether to invoke criminal proceedings is made in liaison with the Monitoring Officer.

Staff are expected, and are positively encouraged, to raise any concerns relating to fraud and corruption of which they become aware. The Council has an established and recently updated Whistleblowing policy enabling employees to raise and report concerns of fraud. The Council has a strong governance framework that supports an anti-fraud culture.

The entity has several policy and procedure manuals relating to its processes and internal control which are held on the Council's intranet and available to all employees to ensure they are fully informed on the standards of the Council. Training and awareness sessions are provided as necessary. From our discussions with members of staff, employees are aware of these policies and procedures and able to access them.

Improving economy, efficiency and effectiveness

How financial and performance information has been used to assess performance and identify areas for improvement

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council produces a report of its Strategic Key Performance Indicators within its position statement. These KPIs are linked back to the key priorities within the Corporate Plan. The KPIs are organised into the portfolio headings and a performance summary is RAG rated, split between, staffing, budget and service delivery impact. The scorecard is used to flag areas of required improvement, devise actions to address any weakness identified and monitor progress.

How the body evaluates the services it provides to assess performance and identify areas for improvement

As set out previously in this assessment, service performance against Council priorities is considered regularly throughout the year through the Quarterly Financial Monitoring Report.

Improving economy, efficiency and effectiveness (continued)

The Council also produce an annual Position Statement which enables the Council and the public to identify services or capital programmes that are not performing as expected by reference to KPI outcomes against targets which are based on the Council's strategic priorities as per the Corporate Plan. Monitoring arrangements therefore present a complete picture of both business and financial performance. KPIs are given RAG ratings to clearly identify those items that are underperforming, or perhaps require closer monitoring. The Council continues to monitor and review its corporate priorities and MTFP to ensure that the plan and KPI's are aligned to the changing environment especially given the uncertainties caused by Covid-19 and the impact of the pandemic on the Council's operations and finances.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council participate in regular committee meetings which are available to the public to review, and therefore stakeholders can understand what is happening.

The Council produces certain documents throughout the year which give the stakeholders, i.e. the public, employees etc an understanding of how the Council is performing, i.e. budget reports and performance dashboards. One of the priorities is the progression of housing benefits over to Universal Credit, which is carried out in tandem with DWP and New Forest Citizens Advice.

The Council actively engages in several key partnerships, including partnerships with the County Council (audit and treasury), the Partnership for South Hampshire (planning) and the Solent Freeport Consortium Ltd.

The annual statements are also available once audited to the public, which include the narrative/governance statement, which provides transparency to the public.

There is also a 'Transparency and Open Government' section on the Council website, which gives the public the ability to review the Council expenditure, enabling the Council to be open to scrutiny.

There is also a governance structure in place to ensure performance expectations are met.

Improving economy, efficiency and effectiveness (continued)

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses with it is releasing the expected benefits

New Forest District Council purchases goods and services from a variety of suppliers. Details of procurements are documented at www.newforest.gov.uk/article/942/Supplying-the-council, which includes the Council's overall procurement strategy (last updated March 2021) to help support delivery of the Council's Corporate Plan. The website also includes details on the terms and conditions and general procurement process, see at www.newforest.gov.uk/standardtermsandconditions. The Council shares information on upcoming tenders as well as details of existing contracts at South East Business Portal (SEBP) which is used by over 35 other local authorities.

Proposals for asset maintenance expenditure are supported by a business case, as are requests for new revenue resources. These are scrutinised initially by the Executive Management Team and the relevant Service Portfolio Holder prior to inclusion within the budget setting process. The financial planning process also includes a review of proposals by the relevant overview and Scrutiny Panels, before final budgetary proposals and the council tax levels are considered and approved by the Council each year.

All procurement processes and contract awards must comply with the Council's Contract Standing Orders (CSOs) set out in Chapter 26 of its Constitution which also set out the limited circumstances and processes that need to be followed for those requirements to be waived.

There is an internal audit function that tests whether the controls in place are effective. There are regular committee meetings to discuss the Council performance, and any issues can be raised here.



Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

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

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.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Authority to complete this work as required.

Report in the Public Interest

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

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

Other powers and duties

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

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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.

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

Appendix A

Audit Fees



Audit Fees – New Forest District Council

Our final proposed fees for 2020/21 are set out in the table below:

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Scale Fee – Code work	42,721	42,721	42,721
Scale Fee Rebasing: Fee for further changes in work required to address professional and regulatory requirements and scope associated with risk (see Note 1)	24,429	19,543	17,983
Scale Fee Variation (see Note 2)	22,120		
Total Audit Fees	89,270	62,264	60,704

Note 1 – In our Audit Results Report, we confirmed the final 2019/20 Scale Fee Variation (SFV) had been approved by the PSAA, which was a combination of our scale fee rebasing and scale fee variation submission and represented 59% of our original submission. PSAA did not specifically confirm the value of the SFV which relates to the scale fee rebasing. Therefore, we continue to record this with using the same number of hours as prior years. However, for 2020/21, the PSAA increased their hourly charge rates by 25%, and this therefore accounts for the increase in the fee submission.

Note 2 – Our SFV for matters specific to 2020/21 is broken down as follows:

- £6,075 for additional works required in relation to VfM as per the updated NAO Code of Audit Practice 2020, which is the lower end of PSAAs published expected range,
- £2,512 for additional works required as per the updated ISA 540 (estimates) standard, again at the lower end of PSAA's published expected range.
- £2,626 for work performed by our Pensions Specialists, EY Pensions Consulting and Property Valuations Specialists, EY Real Estates
- £2,248 for additional works relating to Accounting for Covid-19 related government grants, a new inherent risk for 20/21, and testing on the Sales Fees and Charges grant, designated a significant risk for 20/21.
- £5,640 for the additional scope requirements of testing the group accounts, material entries, consolidation and related disclosures for 20/21
- £1,510 for the additional work required to confirm the data was migrated over to the new financial system appropriately in 20/21
- £1,509 has been submitted for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors and for additional procedures required relating to Housing Benefit expenditure

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