

New Forest District Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP



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

15 October 2015

Dear Members

Annual Audit Letter 2014-15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members of New Forest District Council and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014-15 annual results report to the Audit Committee on 25 September 2015, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for the Council.

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

This is my final year as Executive Director for New Forest District Council. I would like to extend my thanks to officers and members for their assistance over my time as engagement lead. I will work with my successor, Kate Handy (KHandy@uk.ey.com), to facilitate a smooth handover and she will introduce herself to officers and members at upcoming meetings.

Yours faithfully

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

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Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission’s ‘Statement of responsibilities of auditors and audited bodies’ (Statement of responsibilities). It is available from the accountable officer of each audited body and via the [Audit Commission’s website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission’s appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

Our 2014-15 audit work was undertaken in accordance with the Audit Plan issued on 26 June 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements and on the consistency of other information published with them;
- reviewing and reporting by exception on the Council's AGS;
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statements of New Forest District Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 28 September 2015 we issued an unqualified audit opinion on the Council's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 28 September 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 28 September 2015. The Council was below the £350 million reporting threshold.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/ SOLACE guidance.	No issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit	No issues to report.

Area of work

Result

Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.

No issues to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.

Our Audit Results Report was presented to the Audit Committee on 25 September 2015.

Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Issued on 28 September 2015.

In November 2015 we will also issue a report to those charged with governance of the Council summarising the certification of grant claims work we have undertaken.

2. Key findings

2.1 Financial statement audit

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

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

Our detailed findings were reported to the 25 September 2015 Audit Committee and the main issues identified as part of our audit were:

Significant risk 1: Risk of management override

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

From the work completed on journals, accounting estimates and unusual transactions we did not identify any evidence of management override of controls.

Significant risk 2: Calculation of the non-domestic rates (NDR) appeals provision

We reclassified this as a significant risk following our review of the 2014-15 financial statements which showed that the NDR Appeals Provision had significantly increased from the previous year.

We found the judgements made in determining the appeals provision were reasonable. However, we found that the appeals provision was overstated in the Collection Fund by £0.7 million due to a calculation error. This error was corrected by the Council.

Other risk 1: New non-domestic rates (NDR) system in year

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 gained assurance from the outcome of internal audit's work which identified no significant issues from the change of NDR system. Our testing verified that the data migration from the old system to the new system was complete and accurate.

Other risk 2: Change of bank account

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.

We gained assurance from the outcome of internal audit's work which identified no significant issues from the change of bank account. Our testing of the year-end bank reconciliation confirmed the coding issues from the change of bank account were resolved.

Looking ahead, the earlier deadline for producing and auditing the financial statements provides challenges for both the finance team preparing the accounts, and ourselves as your auditors.

Description	Impact
<p>The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year, the timetable for the preparation and approval of accounts will be brought forward.</p> <p>As a result, the Authority will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.</p>	<p>The Chief Financial Officer is aware of this challenge and the need to start planning for the impact of these changes. This will include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes.</p>

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014-15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- ▶ securing financial resilience, and
- ▶ challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 28 September 2015 and noted the following issues as part of our audit

Significant risk finding 1: Financial resilience – delivery of a sustainable medium term financial plan

We carried out an assessment of whether the Council has good systems and processes in place to manage its financial risks and opportunities effectively.

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 medium term financial plan (MTFP), underpinned by reasonable assumptions, to continue to manage its financial risks and opportunities in the future.

There are risks associated with delivery of savings. Plans have been developed to mitigate these risks for 2015-16. However, 2016-17 onwards will be more difficult with a £793,000 savings gap in that year and a further £1.6 million savings gap in 2017/18. The outcome of the government spending review in autumn 2015 may also impact on the MTFP. The Council has general fund reserves of £2.0 million, which are available to support service budgets during the continuing uncertain times.

Despite the continuing uncertainty of the current economic climate and a further reduction of £1.2 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.

Other risk: Securing economy, efficiency and effectiveness

We reviewed whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We found that the Council continues to deliver its services, as outlined in its corporate plan, with less funding. It has adequate risk management arrangements as risk management is built into service planning and performance with scrutiny of risk registers at a service level.

2.3 Whole of Government Accounts

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

We had no issues to report.

2.4 Annual Governance Statement

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

We completed this work and did not identify any areas of concern.

2.5 Objections received

We did not receive any objections to the 2014-15 financial statements from members of the public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Audit Committee on 25 September 2015. In our professional judgement the firm is independent and the objectivity of the audit engagement director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control 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 must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements. However, we have identified where the Council could further improve the overview of its risk management arrangements.

Overview of risk management

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.

We recommended the Audit Committee reviewed its oversight of the effectiveness of the Council's risk management arrangements and receive bi-annual reports on risk management. The Committee should be kept informed on the progress of the current review of the Council's risk management strategy, processes and outcomes, in particular considering how the new arrangements reflect good practice.

4. Looking ahead

Description	Impact
<p>Highways Network Asset (formerly Transport Infrastructure Assets):</p> <p>The Invitation to Comment on the Code of Accounting Practice for 2016/17 sets out the requirements to account for Highways Network Asset under depreciated replacement cost from the existing depreciated historic cost. This is to be effective from 1 April 2016.</p> <p>This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets.</p> <p>This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures.</p> <p>Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.</p>	<p>The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as:</p> <ul style="list-style-type: none">• footways;• unadopted roads on industrial or housing estates;• cycleways; and• street furniture.

5. Fees

Our planned fee for 2014-15 is in line with the scale fee set by the Audit Commission and reported in our September Annual Results Report.

	Final fee 2014-15	Planned fee 2014-15	Scale fee 2014-15	Final fee 2013-14
Audit Fee – Code work	£73,976	£73,976	£73,976	£73,976
Grant fee	£5,670	£5,670	£5,670	£5,670

We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

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