

# New Forest District Council

## Audit Committee Progress Report

28 June 2016



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28 June 2016

Dear Committee Member

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

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



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

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

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

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

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

## 2015/16 audit

### Financial statements

We are required to give an audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended.

We adopt a risk based approach to the audit and as part of our ongoing continuous planning we continue to meet key officers and other stakeholders.

#### Audit Plan

We included the risks associated with the Council's financial statements and the value for money assessment in our 2015/16 Audit Plan which we presented to the Audit Committee in March.

#### Interim audit

Our audit timetable is summarised in section two of this report. During our interim audit, in February and March, we identified and walked through your material income and expenditure systems.

#### Post statements visit

Our post statements visit for four weeks, from 4 July, involves substantively testing the entries in the financial statements and other audit procedures required by both our audit approach and international standards on auditing. We have discussed our working paper requirements with officers.

Our conclusions will be set out in the Audit Results Report for the Council which we will discuss and agree with officers at the beginning of September. We will present our findings to the Audit Committee on 23 September.

### Value for money assessment

We are required to give a statutory conclusion on the Council's arrangements to secure economy, efficiency and effectiveness. The Public Sector Audit Appointments (PSAA) Ltd has revised the specified criterion for the value for money conclusion for the 2015/16 audit to be:

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

We carried out our initial risk assessment in early 2016. We identified the "Delivery of a sustainable medium term financial plan" as a significant value for money risk at the Council. We will carry out our fieldwork in July. Our approach will focus on:

- ▶ reviewing the progress made in achieving the planned budget and required savings for 2015/16;
- ▶ assessing whether the Council has good systems and processes in place to manage their financial risks and opportunities effectively;
- ▶ assessing the robustness of financial plans in for 2016/17 and in the medium term.

## 2016/17 fee letter

We have included, within the agenda papers for this Committee, our audit fee letter to for the 2016/17 audit.

## Local appointment of auditors

We included, in our January progress report, details about the decision of the Department of Communities and Local Government (DCLG) not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. This will mean from 2018/19 onwards, local bodies, including the Council, will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 years. We should also note that there is no restriction on your current auditor re-tendering for the new contract. Since our last update, some further information has emerged in respect of the re-tendering process. We will therefore be happy to provide a verbal update to the Committee.

## Accelerating your financial close arrangements

On 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made under the Local Audit and Accountability Act 2014 on 12 February 2015.

A key area of the regulations is that, from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements. The good news is that with good planning, communication and joint working, those deadlines are highly attainable.

The majority of local bodies are on the right trajectory, having met the current reporting deadlines consistently for the last few years; the challenge now is upping the speed of that trajectory to achieve the faster deadlines. We have included below some suggestions which will help achieve this new statutory deadline. We will continue to engage with officers to ensure that the Council is well placed to meet these new statutory deadlines.

As with any project, the key to success is in the planning, together with timely engagement and collaboration between the preparers of the financial statements and the auditors of those statements. We appreciate that each client starts from a slightly different base. Therefore, there is no one size fits all solution. However, there are areas where consideration can be given now:

- revisit the current project timetable;
- carry out an early in-year financial hard close;
- review the format of your accounts;
- review your approach to estimates;
- review your year-end journal process;
- review the operation of your ledger system; and
- consider how fit for purpose is your current financial reporting system?

Over the coming year, we will organise regular meetings with your finance team and use this as a mechanism to discuss options for early close and early substantive testing. We will continue to provide the Committee with regular updates on our progress in this area. We are also happy to discuss the wider process with you in more detail when we next meet on 28 June 2016.

## **Other issues of interest**

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.



## Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	<b>Ongoing</b>	Audit Fee Letter	June 2015	Complete
Risk assessment and setting of scope of audit	<b>January 2016</b>	Progress Report	January 2016	Complete
Testing of routine processes and controls	<b>March 2016</b>	Audit Plan	March 2016	Complete
Year-end audit	<b>July - August 2016</b>	<p>Audit results report to those charged with governance</p> <p>Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources)</p> <p>Whole of Government Accounts Submission to NAO based on their group audit instructions</p> <p>Audit Completion certificate</p>	September 2016	<p>Year end audit work, on the Council's financial statements, will be carried out for four weeks commencing 4 July 2016.</p> <p>We will present the findings of our audit to the Committee on 23 September 2016.</p>

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