

New Forest District Council

Audit results report

Year ended 31 March 2017



Building a better
working world

Private and Confidential

25 August 2017

Dear Members

We have substantially completed our audit of New Forest District Council's (the Council) financial statements for the year ended 31 March 2017.

Subject to the adequate resolution of the outstanding matters listed in our report, we confirm that we anticipate being in a position to issue an unqualified audit opinion on the financial statements in the form that appears in Section 3, after your Audit Committee meeting on 25 August and well before the statutory deadline of 30 September 2017.

We have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of members and senior management, and should not be used for any other purpose nor given to any other party without our prior written consent.

We would like to thank your staff for the assistance provided to us during the engagement.

We look forward to the opportunity of discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Helen Thompson
Executive Director

For and on behalf of Ernst & Young LLP
United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (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 (updated September 2015)" 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 Members of New Forest District Council and management of the Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the 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 Council members and senior management for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



Executive Summary

Executive summary

Overview of the audit

Scope and materiality

In our Audit Plan, presented at the 27 January 2017 Audit Committee meeting, we provided you with an overview of our audit scope and approach for how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using materiality of £2,017,120. We have reassessed this based on the actual results for the financial year and have increased this amount to £2,051,380. The threshold for reporting audit differences has increased from £100,856 to £102,569. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than our overall materiality level might influence the reader and developed an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including exit packages [strategy applied: we agreed all disclosures in the remuneration report back to source data, and exit packages to the agreed and approved amounts]
- ▶ Related party transactions [strategy applied: we tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence]

Status of the audit

We are still in the process of completing our audit of the financial statements for the year ended 31 March 2017 and are performing the procedures outlined in our audit plan. Subject to satisfactory completion of the outstanding items we expect to issue an unqualified opinion on the Council's financial statements. However, it is possible that further matters requiring amendment may arise. We will provide an update to the Audit Committee at its meeting on 25 August 2017.

The following matters are outstanding at the time of writing this report:

- ▶ Receipt of the signed Letter of Representation.
- ▶ Review of the final version of the financial statements.
- ▶ Completion of subsequent events review.
- ▶ Approval of the accounts by the Audit Committee on 25 August 2017.

We expect to issue the audit certificate at the same time as the audit opinion after the Audit Committee meeting on 25 August 2017.



Executive Summary

Executive summary (continued)

Audit differences - Unadjusted

Management produced a comprehensive and good quality set of draft accounts. However, we have identified two errors above our reporting threshold of £102,569, which management has chosen not to adjust. These are:

- ▶ **Trade Payables:** Three creditor errors totalling £247,334 where expenditure has been recorded in 2017/18 when it should have been recorded in 2016/17.
- ▶ **Expenditure:** Two creditor overstatements, totalling £109,000, where expenditure was recorded in 2016/17 when it should have been recognised in the 2017/18 financial year.

Audit differences - Adjusted

There were no adjusted audit differences which we are required to report to the Audit Committee. However, the Council amended its disclosures in the financial statements to include the following:

- **Note 4: Uncertainties relating to assumptions and estimates used.** The Council has disclosed the key judgements and estimation uncertainty around the valuation of its housing stock over its five year rolling programme. If the House Price Index was used, each year, instead of the Council's Beacon index, the estimated impact may be some £19 million less compared to its current housing stock valuation of £359 million. This may also impact on the Revaluation Reserve and the impairment recorded in the HRA account.
- **Note 11: Property, Plant and Equipment.** The Council has better described its valuation methodology for the valuation of its council housing stock to include more detail on the basis of the Beacon methodology used in its five year programme of valuation.
- **Note 17: Short-term debtors:** Debtors have been reclassified so that "other debtors and payments in advance" have increased by £112,000 and Central Government Bodies, Other Local Authority, Public Corporations and Trading Funds debtors have decreased by £112,000.
- **Note 48: Financial instruments - assets:** Trade debtors were incorrectly disclosed, in error, as £5.442 million. The correct figure now disclosed is £3.107 million.



Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial statements. This report sets out our observations and conclusions on these areas. Our consideration of these matters and others identified is summarised in the "Areas of audit focus" section of this report.

We ask you to review these and the other matters in this report to ensure that:

- ▶ there are no residual further considerations or matters that could have an impact on these issues;
- ▶ you agree with the resolution of the issue;
- ▶ there are no further significant issues known to you which need to be considered before the financial report is finalised.

There are no matters that we believe need to be brought to the Audit Committee's attention, other than those reported by management or disclosed in this report.

Other reporting issues

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

For the Whole of Government Accounts, as the Council is below the specified audit threshold of £350 million, we did not perform any audit procedures on the consolidation pack. We have no matters to report.

We have no other matters we wish to report.

Value for money

We have considered your arrangements for taking informed decisions, deploying resources in a sustainable manner, and working with partners and other third parties. In our audit plan we identified one significant risk around these arrangements in terms of the "delivery of a sustainable medium term financial plan.

As discussed, in Section 5, our work did not identify any issues that we needed to report to you in terms of your arrangements to secure economy efficiency and effectiveness in your use of resources.



Executive Summary

Control observations

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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

There are no matters we wish to report.

Independence

Please refer to Appendix B for our update on independence. There are no issues to report.

Audit fees

Our planned fee, reported in the Audit Plan presented to the Audit Committee in January 2017, was £55,482. Our proposed final fee, of £56,462, will be confirmed following the presentation of this report at the Audit Committee, and subsequent agreement with Public Sector Audit Appointments Ltd. We have discussed and agreed the additional fee of £980, for the work our property experts carried out on the valuation of the Council's housing stock, with the Chief Executive and the Responsible (S151) Officer when we met on 31 July 2017. Please refer to Section 2 "Areas of audit focus" for further details on the work we carried out and Appendix B for our update on audit fees.



02

Areas of Audit Focus



Audit issues and approach: Management override – significant risk

Management override

What are our conclusions?

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

We have not identified 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

What is the risk?

Risk of management override

As identified in ISA 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.

What did we do?

Our approach focused on:

- ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, e.g. senior managers entering journals (we would not normally expect this), journals posted at weekends and those not netting to zero, and journals with descriptions such as 'fraud' and 'error';
- ▶ reviewing accounting estimates for evidence of management bias in how they had been arrived at, e.g. understating assumptions about accruals; and
- ▶ evaluating the business rationale for significant unusual transactions, e.g. individual material items, anomalies in accounting treatment, transactions put through the ledger at unusual times.

We found no issues to report.



Areas of Audit Focus

Audit issues and approach: Valuation of housing stock – significant risk

Valuation of housing stock

This significant risk was not included in our audit plan and was identified on our review of the Council's draft financial statements

What is our conclusion?

We found the Council was compliant with the 'Beacon Approach to Valuation' as set out in the Department for Communities and Local Government ('DCLG') guidance for valuers 2016.

We recommend that in future years the current application of the 'Beacon Approach to Valuation' by the Council is revised slightly in order to enhance its robustness and perceived accuracy.

What is the risk?

Risk of misstatement of the value of housing assets

Our review of the Council's draft financial statements showed that there was an 11.17% increase in the value of housing stock in 2016/17 compared to a 1.47% increase in 2015/16 and a 12.53% increase in 2014/15. Given that there has been a significant fluctuation in council house values over the last three years, we concluded that we needed to seek a view from our EY Real Estate Valuation specialists on the appropriateness of the valuation methodology used by the Council.

The valuation of the Council's housing stock is carried out by the Council's in-house Estates & Valuation Team. The valuer adopts the Beacon methodology to revalue the housing stock annually. The method adopted divides the District into five pools, with a single pool being used to inform the Beacon index each year on a cyclical basis. The index is then applied across the entire housing stock portfolio of 5,032 houses.

This process works well if the beacons across all five pools experience the same market conditions so their values move at a consistent rate, but if any of the beacons in one pool are significantly different in terms of their market position there is a risk that irregular movements between years could result. When applied across the whole portfolio, distortions could occur in the asset values of the housing stock.

What did we do?

Our specialists:

- ▶ held various discussions with the in-house Estates & Valuation Team to discuss their approach; and
- ▶ completed corroborative procedures to identify the quantum of exposure concerned.

Using the Land Registry's Housing Price Index, as opposed to the beacon index generated by the Council, they calculated a high level valuation of £338 million for the housing stock as at 31 March 2017, in contrast to the Council's valuation of £357 million, which is some £19 million difference. The Council's Estates & Valuation Team stated that generally the properties are bought when individuals are not able to afford anything else in the market. It is therefore less relevant to compare to standard local market conditions. We concluded that the Council's valuation of its housing stock of £357 million is within a reasonable range of values, albeit towards the higher end of this range, based on our review procedures.

Management recommendation:

To make the Council's valuation methodology more robust, we recommend in future that two pools of housing stock are fully valued, rather than one, on a revolving basis. For example, in year 1 pools A & B are fully valued, in year 2 pools B & C are fully valued and so on.

We propose an additional fee of £980 for this work as discussed in Appendix B.



Areas of Audit Focus

Expenditure and funding analysis and comprehensive income and expenditure statement

What is our conclusion?

Overall our audit work did not identify any issues with the revised Comprehensive Income and Expenditure Statement reported by the Council.

The Council needs to clarify in its annual financial report that the Expenditure and Funding Analysis is not a primary statement and that it is a supporting note to the CIES.

What is the risk?

Amendments have been made to the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the '*Telling the Story*' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the Authority operates. We expect this to show the Authority's segmental analysis.

What did we do?

Our approach focussed on:

- ▶ review of the Expenditure and Funding Analysis, CIES and new notes to ensure disclosures are in line with the Code;
- ▶ review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- ▶ agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

We have no issues to report in terms of the accuracy of the figures in the Expenditure and Funding Analysis (EFA). However, the EFA is currently positioned between two primary statements, the CIES and the MIRS, We have asked the Council to clarify in its annual financial report that the EFA is not a primary statement and that it is a supporting note to the CIES.



03 Audit Report



Audit Report

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

Opinion on the New Forest District Council's financial statements

We have audited the financial statements of New Forest District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement; Movement in Reserves Statement; Balance Sheet; Cash Flow Statement; and the related notes 1 to 55, including the Expenditure and Funding Analysis (on page 15); the Housing Revenue Account and related notes 1 to 7; and the Collection Fund and related notes 1 to 7.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Responsible Financial (S151) Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 3, the Responsible Financial (S151) Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the New Forest District Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial (S151) Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Council's Annual Financial Report 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of New Forest District Council as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.



Audit Report

Opinion on other matters

In our opinion, the information given in the Council's Annual Financial Report 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on the New Forest District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2016, as to whether the New Forest District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider



Audit Report

under the Code of Audit Practice in satisfying ourselves whether the New Forest District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion
On the basis of our work, having regard to the guidance issued by the Comptroller and Audit General in November 2016, we are satisfied that, in all significant respects, New Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate
We certify that we have completed the audit of the accounts of New Forest District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Helen Thompson (senior statutory auditor)
for and on behalf of Ernst & Young LLP, Appointed Auditor

Southampton

xx August 2017

[The following foot note should be added to the audit report when it is published or distributed electronically:

The maintenance and integrity of the New Forest District Council's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.]



04 Audit Differences



Audit Differences

Audit differences

Summary of adjusted differences

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

Summary of unadjusted differences

We highlight the following misstatements in the financial statements and/or disclosures which were not corrected by management. We ask you to correct these uncorrected misstatements or give a rationale as to why they have not been corrected. This should be considered and approved by the Audit Committee and included in the Letter of Representation:

Management produced a comprehensive set of accounts. However, we have identified a couple of errors which management has chosen not to adjust for. These are:

- ▶ **Trade Payables:** We found three errors totalling £247,334 where housing expenditure has been recorded in 2017/18 when it should have been recorded in 2016/17.
- ▶ **Expenditure:** The valuation date on a capital scheme was 17 April 2017 which suggests that circa £109,000 of expenditure was recorded in 2017/18 when it should have been recognised in the 2016/17 financial year.



Audit Differences

There were no adjusted audit differences in the figures which we are required to report to the Audit Committee. However, the Council amended its disclosures in the financial statements to include the following:

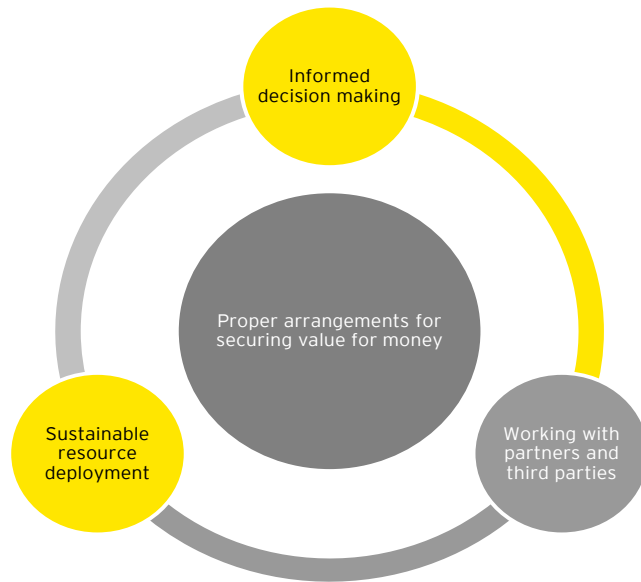
- **Note 4: Uncertainties relating to assumptions and estimates used.** The Council has disclosed the key judgements and estimation uncertainty around the valuation of its housing stock over its five year rolling programme. If the House Price Index was used, each year, instead of the Council's Beacon index, the estimated impact may be some £19 million less compared to its current housing stock valuation of £359 million. This may also impact on the Revaluation Reserve and the impairment recorded in the HRA account.
- **Note 11: Property, Plant and Equipment.** The Council has better described its valuation methodology for the valuation of its council housing stock to include more detail on the basis of the beacon methodology used in its five year programme of valuation.
- **Note 17: Short-term debtors:** Debtors have been reclassified so that "other debtors and payments in advance" have increased by £112,000 and Central Government Bodies and Other Local Authority debtors have decreased by £112,000.
- **Note 48: Financial instruments - assets:** Trade debtors were incorrectly disclosed, in error, as £5.442 million. The figure has been amended to £3.107 million.



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We are required to consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness in their use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We have considered your arrangements for taking informed decisions, deploying resources in a sustainable manner, and working with partners and other third parties. In our audit plan we identified one significant risk around these arrangements in terms of the "delivery of a sustainable medium term financial plan.

Our work focussed on the adequacy of the plans and arrangements the Council has put in place, in 2016/17, to secure financial resilience and the financial sustainability of the Council in the medium term.

As discussed, overleaf, our work did not identify any issues that we needed to report to you in terms of your arrangements to secure economy efficiency and effectiveness in your use of resources.



Value for Money

VFM risk - Sustainable Resource Deployment – achievement of savings requirement and financial planning for the medium term

We are only required to determine whether there are any risk that we consider significant within the Code of Audit Practice which defines significant as: *“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work for us to deliver a safe conclusion on arrangements to secure value for money, and enables us to determine the nature and extent of any further necessary work. If we do not identify any significant risk, there is no requirement to carry out further work.

The table below presents the findings of our work in response to the risk area in our Audit Plan.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<p>Our work focussed on the adequacy of the plans and arrangements the Council has put in place, in 2016/17, to secure financial resilience and the financial sustainability of the Council in the medium term.</p>		
<p>Significant risk identification in the 2016/17 Audit Plan:</p> <p>The Council has calculated that it has an anticipated reduction in grant funding over the next three year period amounting to some £4.129 million (39% reduction from 2016/17). The summary position for the Medium Term Financial Plan (MTFP), which takes into account all funding and budget assumptions, identifies a:</p> <ul style="list-style-type: none"> ▶ balanced budget for 2017/18; ▶ deficit for 2018/19 of £620,000; and ▶ cumulative deficit of £809,000 in 2019/20. <p>The Council's Budget Stabilisation Strategy sets out, for each of the Council's Service Managers, a three year target equivalent to the originally anticipated £2.438m increase in costs. Other savings and income improvements are also expected to materialise over the period, resulting in total forecast savings of £4.129 million. However, there are risks around the delivery of savings and we will review the Council's arrangements for planning a sustainable financial future.</p>		
<p>Our findings:</p>		
<ul style="list-style-type: none"> ○ Reviewing the progress made in achieving the planned budget and required savings for 2017/18. 	<ul style="list-style-type: none"> ○ Taking informed decisions ○ Deploying resources in a sustainable manner 	<p>At 31 March 2017, the Council reported a £2.390 million surplus against a forecast budgeted deficit of £306,000, compared to a net expenditure budget of £19.265 million. In February 2016, the Cabinet approved the Council's Delivery Plan, linked to the 2016 - 2020 Corporate Plan, which outlined the need to close the £1.136 million budget deficit over the medium term period to 2020. The Council successfully delivered £1.579 million of savings through its service reviews in 2016/17. For 2017/18, the significant financial challenges continue as managers are currently updating service plans, including their year two and three saving projections to address the known gap from 2018/19 onwards.</p>



Value for Money

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<p>Sustainable Resource Deployment – achievement of savings requirement and financial planning for the medium term Assessing whether the Council has good systems and processes in place to manage its financial risks and opportunities effectively.</p>	<ul style="list-style-type: none"> ○ Taking informed decisions ○ Deploying resources in a sustainable manner ○ Working with partners and other third parties 	<p>The delivery of the Council's strategic priorities has been underpinned by good financial forecasts, risks and assumptions which have been disclosed and reported by management to Cabinet and Members throughout the 2016/17 financial year. The Council had appropriate processes for setting its 2016/17 and 2017/18 budgets. Budget assumptions are reasonable, although these are best estimates as there still are many uncertainties, particularly surrounding the impact of the new arrangements with Business Rates and the continuing uncertain economic climate. The Council currently has general fund reserves of £3 million, and a balance of £12.076 million in the capital programme reserve. The significant financial challenges continue for the Council and Members are well aware that for 2017/18, the Council needs to build on the good arrangements and outcomes put in place during 2016/17.</p>
<ul style="list-style-type: none"> ○ Assessing the robustness of financial plans for 2017/18 and in the medium term. 	<ul style="list-style-type: none"> ○ Taking informed decisions ○ Deploying resources in a sustainable manner ○ Working with partners and other third parties 	<p>The Council's medium term financial planning process is comprehensive and the figures in the plan can be agreed to detailed working papers with reasonable assumptions. The Council has made good progress in its medium term planning as it has further closed the funding gap since February this year. The forecast deficit for 2018/19 of £620,000 has been reduced to £143,000 and the forecast deficit for 2019/20 is lower at £447,000 in the latest MTFP approved by the Cabinet this July. The Council's financial plans appear to be robust in the medium term as the Council is successfully reducing its budget deficit, which at £1.300 million to 2022, is lower than the current level of Council's general fund reserves.</p>



06

Other reporting issues



Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the New Forest District Council Annual Financial Report 2016/17 with the audited financial statements.

- We found that the financial information in the New Forest District Council Annual Financial Report for the Year ended 31 March 2017 and published with the financial statements was consistent with the audited financial statements.

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

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



Other reporting issues

Other powers and duties

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

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

Whole of Government Accounts

For the Whole of Government Accounts, as the Council is below the specified audit threshold of £350 million, we did not perform any audit procedures on the consolidation pack. We have no matters to report.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you any findings from the audit or other matters significant to your oversight of the Council’s financial reporting process. This includes the following:

- ▶ Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- ▶ Any significant difficulties encountered during the audit;
- ▶ Any significant matters arising from the audit that were discussed with management;
- ▶ Related parties;
- ▶ External confirmations
- ▶ Going concern;
- ▶ Consideration of laws and regulations;;
- ▶ Written representations we have requested;
- ▶ Expected modifications to the audit report; and
- ▶ Any other matters significant to the overseeing of the financial reporting process.

We have no matters to report.



07

Assessment of Control Environment



Assessment of control environment

Financial controls

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 auditor is to consider whether the Council has adequate arrangements to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have 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 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 the Council's financial statements of which they are not aware.







08 Appendices



Appendix A




Required communications with the Audit Committee

There are certain communications that we must provide to the audit committees of UK clients. We have done this by:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Authority of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	27 January 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	25 August 2017 Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, to raise any doubt about the Council's ability to continue for 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	25 August 2017 Audit Results Report



Appendix A

		 Our Reporting to you
Required communications	What is reported?	  When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Unless all of those charged with governance are involved in managing the entity, any fraud that we have identified or information we have obtained that indicates that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees who have significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility. 	<p>We have asked management and those charged with governance about arrangements to prevent and/ or detect fraud.</p> <p>We have also focused our consideration of management override and revenue recognition towards higher risk areas, see Areas of audit focus in the report.</p> <p>We have not become aware of any fraud or illegal acts during our audit.</p>
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters to report
Subsequent events	<ul style="list-style-type: none"> ▶ Asking the Audit Committee, where appropriate, about whether any subsequent events have occurred that might affect the financial statements. 	We have made enquiries of management and those charged with governance. We have no matters to report
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements and management refuses to make the revision. 	We have no matters to report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations



Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. ▶ Asking the Audit Committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements. 	We have not identified any material instances or non-compliance with laws or regulations as a result of asking the Audit Committee and management.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	25 August 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that bear on EY's objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	27 January 2017 Audit Plan 25 August 2017 Audit Results Report
Fee Reporting	<p>Breakdown of fee information at the agreement of the initial audit plan</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work undertaken</p>	27 January 2017 Audit Plan 25 August 2017 Audit Results Report
Certification work	Summary of certification work	Certification Report (due later this year)



Independence

We confirm there are no changes in our assessment of independence since the confirmation in our audit plan of 27 January 2017.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your members consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 25 August 2017.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us for the year ended 31 March 2017.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

	Final fee 2015/16	Planned fee 2016/17	Scale fee 2016/17	Final fee 2016/17
Audit fee - code work	55,482	55,482	55,482	55,482
Certification of claims and returns	4,253	4,253	4,253	4,253**
Additional fee in relation to the valuation of housing stock.	0	0	0	980*
Total audit fee	59,735	59,735	59,735	60,715

*The final fee for our audit work, of £56,462, will be confirmed following the presentation of this report at the Audit Committee. We have discussed and agreed the additional fee of £980, for the work our property experts carried out on the valuation of the Council's housing stock, with the Chief Executive and the Responsible (S151) Officer when we met on 31 July 2017.

We will also need to agree the additional fee of £980 with PSAA Ltd.

** Our final fee for our work on the Housing Benefit subsidy claim will be confirmed following completion of the work by the deadline of 30 November 2017; and reported in our certification report.



Appendix C

Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]

25 August 2017

Helen Thompson
Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton
SO14 3QB,

This letter of representation is provided in connection with your audit of the financial statements of New Forest District Council ("the Council") for the year ended 31 March 2017. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of (or 'present fairly, in all material respects,') the financial position of the Authority as of 31 March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations (England) 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the financial statements.



Appendix C

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. We believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 that are free from material misstatement, whether due to fraud or error
5. There are unadjusted audit differences identified during the current audit which the Council has decided not to amend for the following reason. Three invoices, totalling £247,334, received and paid in 2017/18 should have been recorded in 2016/17 via an accrual but were missed. Two invoices totalling £109,000 received and paid in 2016/17 should have been recorded in 2017/18 via an accrual but were missed. As the net effect of the missed adjustments is minor in comparison to the materiality level of the accounts they have been left unadjusted.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
 - Additional information that you have requested from us for the purpose of the audit and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.



Appendix C

3. We have made available to you all minutes of the meetings of the Council, the Cabinet, and all committees including the Audit Committee.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

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

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. Accounting estimates recognised or disclosed in the financial statements:
 - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
 - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
 - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
 - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.



Appendix C

H Retirement benefits

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

Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the Local Government Pension Fund balances and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

Yours Faithfully,

Alan Bethune
Responsible Financial (S151) Officer

I confirm that this letter has been discussed and agreed at the New Forest District Council's Audit Committee on 25 August 2017.

Councillor Alan O'Sullivan
Chairman of the New Forest District Council's Audit Committee

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