

New Forest District Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (PSAA) have issued a "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.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 23 February 2017)" 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 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to New Forest District Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Financial Report 2016/17.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 25 August 2017.
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 2015 Code of Audit Practice.	Our certificate was issued on 25 August 2017.

In November 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the 2016/17 housing benefits claim.

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

Helen Thompson

Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 25 August 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 27 January 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, 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 putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts 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.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 25 August 2017.

Our detailed findings were reported to the 25 August 2017 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none">▶ 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. <p>We found no issues to report.</p>

Significant Risk	Conclusion
<p>Valuation of housing stock</p> <p>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 treat this as a significant risk and seek a view from our EY Real Estate Valuation specialists on the appropriateness of the valuation methodology used by the Council.</p>	<p>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.</p> <p>We recommended that in future years the current application of the 'Beacon Approach to Valuation' by the Council is revised in order to enhance its robustness and perceived accuracy.</p>

Other Key Findings	Conclusion
<p>Expenditure and funding analysis and comprehensive income and expenditure statement.</p> <p>Amendments were 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. This change in the Code required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.</p>	<p>Overall our audit work did not identify any issues with the revised Comprehensive Income and Expenditure Statement reported by the Council.</p> <p>However, we asked the Council 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.</p>

The Council's Statement of Accounts 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.

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 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 basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure. We consider gross 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 Committee all audit differences in excess of £102,569 (2016: £100,856).

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 including any severance payments, exit packages and termination benefits. 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.

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

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

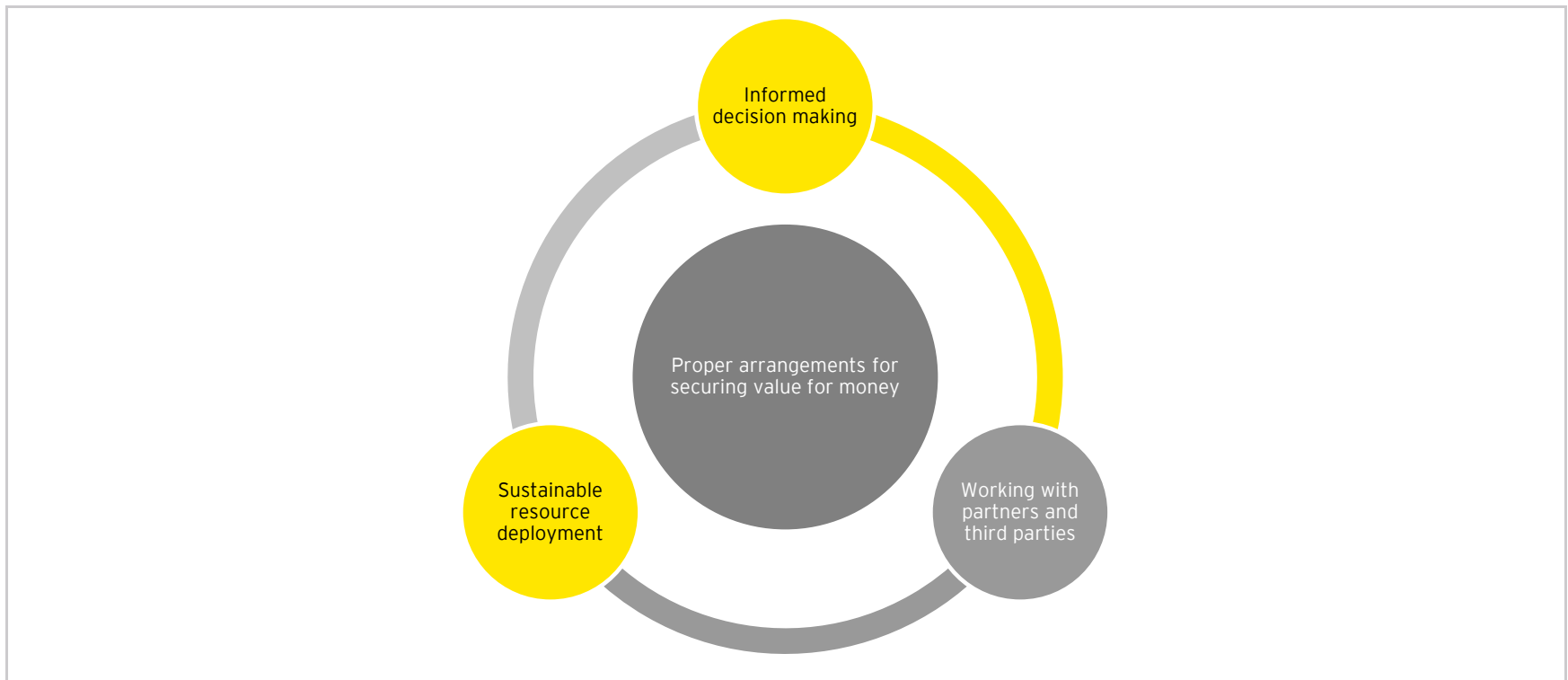
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its 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.



We identified one significant risk in relation to these arrangements. The tables below present the findings of our work in response to the risk identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 25 August 2017.

Significant Risk	Conclusion
<p>Sustainable Resource Deployment - achievement of savings requirement and financial planning for the medium term</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>Review of the progress made in achieving the planned budget and required savings for 2017/18</p> <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> <p>Assessment of the robustness of financial plans for 2017/18 and in the medium term</p> <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>



Other Reporting Issues

Other Reporting Issues

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.

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual 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 is misleading.

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

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.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

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

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 25 August 2017. 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 regulatory and professional requirements.

Control Themes and Observations

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.

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

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

Annual Audit Letter for the year ended 31 March 2017 - New Forest District Council

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