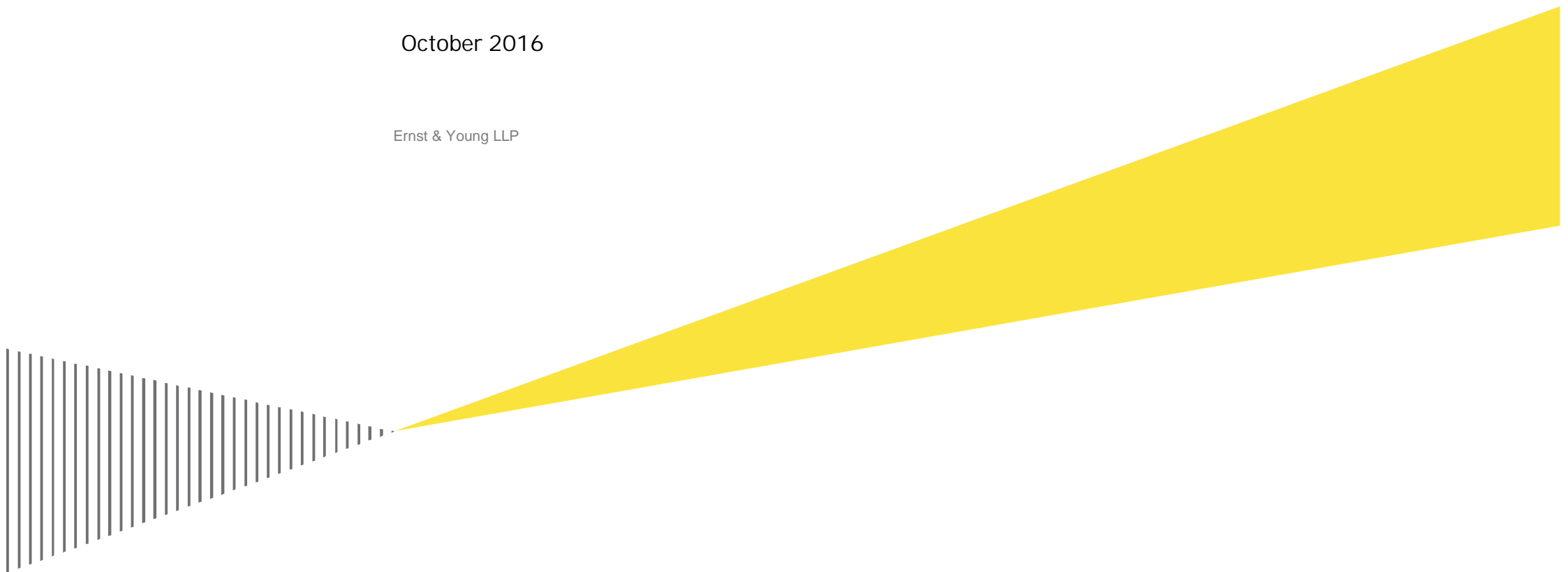


# Forest Heath District Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



## Contents

Executive Summary .....	2
Purpose & Responsibilities .....	5
Financial Statement Audit .....	8
Value for Money .....	12
Other Reporting Issues.....	15
Appendix A    Audit Fees .....	18

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 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 Forest Heath District Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

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 2016 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 those financial statements.
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).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 8 September 2016. We presented this to the Performance and Audit Scrutiny on the 22 September 2016.
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 22 September 2016.

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Mark Hodgson

Executive Director  
For and on behalf of Ernst & Young LLP





Purpose &  
Responsibilities



## 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 2015/16 Audit Results Report to the 21 September 2016 Performance and Audit Scrutiny 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 of the Council

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

## Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 April 2016 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 2015/16 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 thy 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.



# 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 22 September 2016.

Our detailed findings were reported to the 22 September 2016 Performance and Audit Scrutiny Committee.

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

Significant Risk	Conclusion
<p><b>Pension valuations and disclosures</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's Balance Sheet.</p> <p>The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Norfolk Pension Fund.</p> <p>As part of their actuarial review, councils are being asked to make additional payments to the pensions scheme to fund deficits. Due to the nature, volume and size of the transactions we consider this to be a significant risk.</p>	<p>We</p> <ul style="list-style-type: none"><li>▶ Reviewed the information provided by the Council to the pension fund actuary;</li><li>▶ Liaised with the auditors of the Suffolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Forest Heath District Council;</li><li>▶ Assessed the conclusions drawn on the work of the actuary by the Consulting Actuary commissioned by Public Sector Auditor Appointments (PwC); and</li><li>▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li></ul> <p>Our audit work and testing of pension valuations and pensions disclosures has provided us with sufficient assurance over the balances disclosed within the financial statements. We did not identify any matters that we need to bring to your attention.</p>

Significant Risk	Conclusion
<p><b>Valuation of property, plant and equipment</b></p> <p>Property, plant and equipment represent a significant balance in the Council's accounts and this is an area which involves judgemental inputs and estimates.</p> <p>The most significant accounting judgement and estimate that the Council forms in this area relates to the valuation of property, plant and equipment. In order to address this accounting risk the Council employs a valuation expert; Valuation Office Agency.</p> <p>The valuation risk is increased with the prospective application of IFRS13 Fair Value Measurement from 1 April 2015. This is likely to have the largest impact on the Council's investment property portfolio where asset valuations need to be reviewed to ensure they are based on best use.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>▶ Performed audit procedures to place reliance on management's valuations expert;</li> <li>▶ Tested the accounting treatment of valuations made in the year, including the assessment and treatment of impairments; and</li> <li>▶ Reviewed and tested the Council's application of IFRS13 to ensure the fair value of relevant assets is based on economic best interest.</li> </ul> <p>Our audit work and testing of property, plant and equipment has provided us with sufficient assurance over the balances disclosed within the financial statements. We did not identify any matters that we need to bring to your attention.</p>
<p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We have rebutted this risk for the Council's income and expenditure streams except for:</p> <ul style="list-style-type: none"> <li>▶ Capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme; and</li> <li>▶ The allocation and recording of recharges between Forest Heath District Council and Forest Heath District Council given the shared management arrangements between the two Councils.</li> </ul>	<p>We:</p> <ul style="list-style-type: none"> <li>▶ Reviewed and test revenue and expenditure recognition policies;</li> <li>▶ Reviewed and discussed with management accounting estimates on revenue and expenditure recognition for evidence of bias;</li> <li>▶ Developed a testing strategy to test material revenue and expenditure streams;</li> <li>▶ Reviewed and tested revenue cut-off at the period end date;</li> <li>▶ Tested the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure; and</li> <li>▶ Tested recharges between Councils to ensure that they are appropriate and supported by appropriate documentation.</li> </ul> <p>Our audit work and testing of revenue streams has not identified any evidence fraud in relation to revenue recognition. We did not identify any matters that we need to bring to your attention.</p>

Significant Risk	Conclusion
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 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.</p> <p>We have assessed journal amendments, accounting estimates (including the provision for Business Rate appeals) and unusual transactions as the area's most open to manipulation.</p>	<p>We:</p> <ul style="list-style-type: none"><li>▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li><li>▶ Reviewed accounting estimates for evidence of management bias; and</li><li>▶ Evaluated the business rationale for significant unusual transactions.</li></ul> <p>Our audit work on journals and accounting estimates has not identified any evidence of management bias or significant unusual transactions. We did not identify any matters that we need to bring to your attention.</p>



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 ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

Value for Money

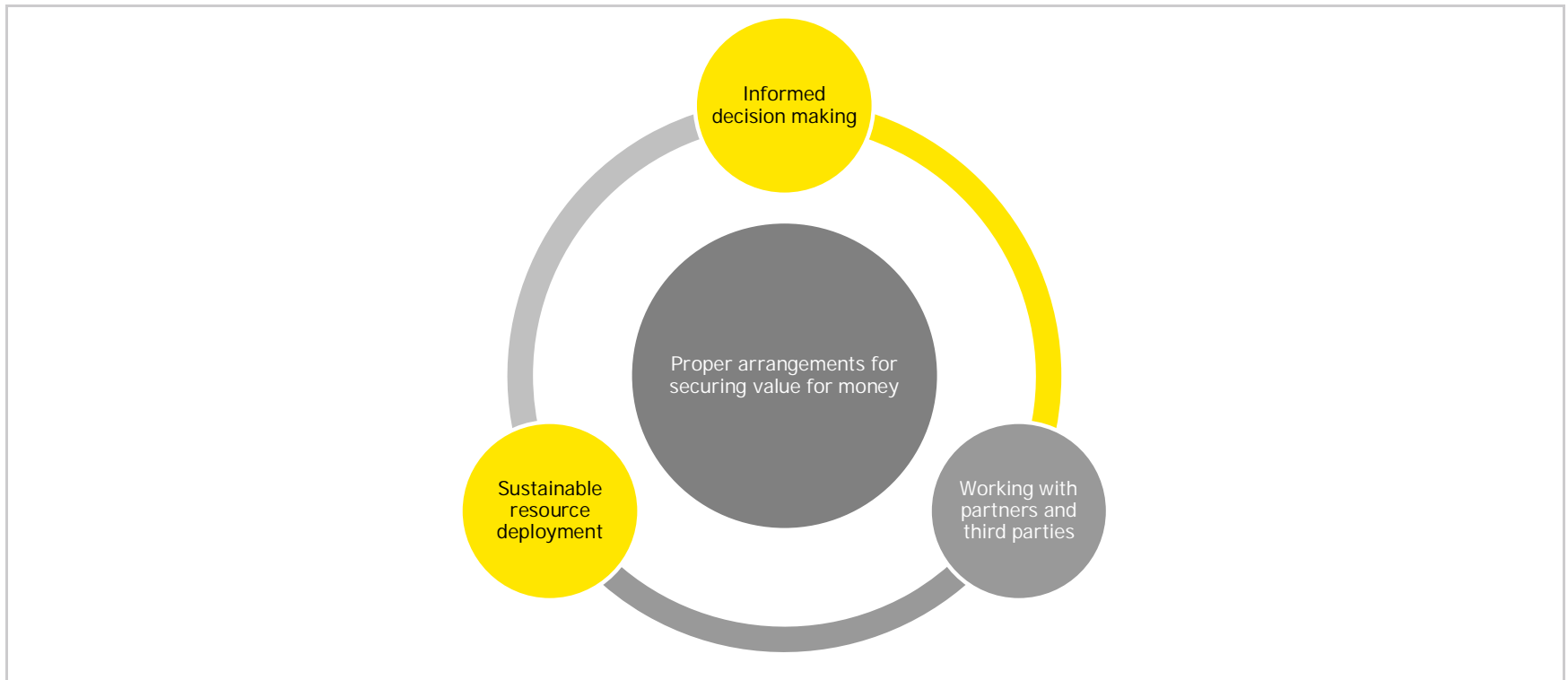


## Value for Money

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 issued an unqualified value for money conclusion on 22 September 2016.

Our audit did not identify any significant matters in relation to the Council's arrangements.

Our detailed findings were reported to the 22 September 2016 Performance and Audit Scrutiny Committee.

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

Significant Risk	Conclusion
<p>Sustainable resource deployment: Achievement of savings needed over the medium term</p> <p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn and reductions to central government funding. However, with the Council forecasting a cumulative budget gap of £2.4m by 2018/18, there remains significant financial pressure on the Council's budget and Medium Term Financial Strategy (MTFS) during the current and forthcoming financial years.</p> <p>The Council has adopted a strategy of investing surplus reserves in investment property and through the establishment of Barley Homes Group Ltd in the residential property market.</p> <p>The Councils governance arrangements should be adequate to ensure that these decisions are based on a sound assessment of the returns and value of this strategy to the Council.</p>	<p>The Council has a track record of achieving its savings and budget over the past 3 years;</p> <p>There is also sufficient general fund reserves in place to accommodate the level of savings required in future years should these not be achieved; and</p> <p>The Council has appropriate processes for setting its budget, and the budget assumptions appear reasonable.</p>



Other Reporting  
Issues

## Other Reporting Issues

### Whole of Government Accounts

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 2015/16 financial statements from any 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 Performance and Audit Scrutiny Committee on 22 September 2016. 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.

No deficiencies in internal control were identified during our audit.



Appendix A

## Audit Fees



## Appendix A Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our 21 September 2016 Audit Plan/Annual Results Report.

Description	Final Fee 2015/16 £'s	Scale Fee 2015/16 £'s	Variation comment
Total Audit Fee – Code work	48,490	47,059	Note 1
Total Audit Fee – Certification of claims and returns	To be confirmed	15,642	Note 2

Note 1 - Audit Fee – Code work. Proposed fee includes an additional £1,431 for audit work pertaining to the Councils proposed policy Minimum Revenue Provision changes. The additional work was requested by management and the scale fee variation has been agreed.

Note 2 - Certification of claims and returns. We have not commenced our work in this area. We will report the results of our work and the final fee with you in our Annual Certification Report.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

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