New Forest National Park Authority

Rebuilding audit assurance: the path to an unqualified opinion

Year ended 31 March 2026

July 2026

RAPC 599/26
Annex1

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30 July 2026

New Forest National Park Authority,
Lymington Town Hall,
Avenue Road,
Lymington,
SO41 9ZG

Dear Resources, Audit and Performance Committee Members

Rebuilding audit assurance – risk assessment update

We attach our risk assessment update for consideration at the forthcoming meeting of the Resources, Audit and Performance Committee.

The purpose of this paper is to provide the Resources, Audit and Performance Committee with further detail on the risk assessment procedures performed in respect of opening reserve balances. These procedures have been undertaken in response to the 2022/23 disclaimed audit opinion and in accordance with the National Audit Office’s Local Authority Reset and Recovery Implementation guidance.

This update should be read in conjunction with our Audit Planning Report for the 2025/26 audit, issued on 22 April 2026.

We welcome the opportunity to discuss this report with you at the meeting on 7 September 2026, and to understand whether there are any additional matters which the committee considers may influence our risk assessment.

Yours faithfully

Simon Mathers, Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/). 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 and further guidance (updated October 2025)' issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Resources, Audit and Performance Committee, Those Charged with Governance and management of New Forest National Park Authority. Our work has been undertaken so that we might state to the Resources, Audit and Performance Committee, Those Charged with Governance and management of New Forest National Park Authority 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 Resources, Audit and Performance Committee, Those Charged with Governance and management of New Forest National Park Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Management agree that they remain solely responsible for management decisions relating to the audited body and that we do not, and cannot, act in a managerial capacity nor can we make business decisions for management/the audited body in connection with the services or otherwise, nor advise or recommend that any accounting policy, treatment or reporting is suitable for any particular purpose or specific facts, and management agrees that they will not rely on us as having done so.

If you wish to discuss how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may raise the matter with the Key Audit Partner responsible for services provided under our appointment by PSAA Ltd. Alternatively, you may contact Stephen Reid, UK Head of Government and Public Sector Audit, at 1 More London Place, London SE1 2AF. We will consider any concerns carefully and promptly and will make every effort to explain our position clearly. If your concerns remain unresolved, you may escalate the matter to Anna Anthony, UK&I Regional Managing Partner, at 1 More London Place, London SE1 2AF. If you remain dissatisfied, you may refer the matter to PSAA Ltd or raise it with our professional institute; further details are available on request.

Rebuilding audit assurance – risk assessment update

1. Background and regulatory context

Appendix A explains the expected timeline to full assurance set out in the National Audit Office's (NAO) Local Authority Reset and Recovery Implementation Guidance (LARRIG 01), together with our assessment of New Forest National Park Authority's (the Authority's) current position. During 2023/24 and 2024/25, the focus of the rebuild process has been on the Authority's "natural" rebuild, through completing planned audit procedures for each respective audit year.

As set out in Appendix A, as all planned audit procedures for the 2023/24 and 2024/25 audits were completed, the Authority's "natural" rebuild is now well progressed.

LARRIG 06, issued by the NAO, requires auditors to perform specific risk assessment procedures over reserves. The guidance recognises that reserves balances may contain the cumulative effect of unaudited transactions over more than one financial year and may therefore represent an area of accumulated audit risk. The purpose of this risk assessment is to identify the likelihood and potential magnitude of risks of material misstatement within reserves balances, together with management's readiness to support the historical rebuild process. This assessment informs audit planning and any potential rebuild of assurance over future audit cycles as well as completion of the capacity and risk assessment return that we are required to make to the Ministry for Housing, Communities and Local Government ('MHCLG').

2. Scope of our risk assessment procedures

Our risk assessment covered all reserves disclosed in the Authority's Movement in Reserves Statement, including both usable and unusable reserves. In performing the assessment, we considered:

- the nature and purpose of individual reserves;
- the scale and significance of movements during periods subject to disclaimer;
- susceptibility to material misstatement, including the risks of fraud and management bias;
- the wider governance and control environment of the Authority's financial reporting processes; and
- risks associated with the classification of reserves between usable and unusable categories.

The assessment did not seek to re-establish assurance over historic balances. Its objective was to determine whether, where and when, such assurance could be rebuilt over time.

Rebuilding audit assurance – risk assessment update

3. Summary of risk assessment findings

The risk assessment process identified that the risk of material misstatement is not uniform across reserves. Certain reserves were assessed as presenting a higher risk of material misstatement, reflecting factors including:

- the size of balances and the extent of movements during periods subject to disclaimed opinions;
- the degree of judgement required in determining the appropriate accounting treatment; and
- reliance on complex statutory and capital accounting arrangements.

Other reserves were assessed as lower risk, with characteristics that may support a more targeted and proportionate rebuilding of assurance, without undermining audit quality, subject to the availability of sufficient appropriate audit evidence. This assessment underpins the differentiation in audit response which will be adopted across reserves and is intended to promote a consistent and proportionate approach.

The following dashboard summarises our assessment of the risk of material misstatement by reserve following the disclaimers of opinion.

Reserve	Risk Assessment	Rationale for Risk Assessment
Earmarked Reserve	Lower inherent risk	The Earmarked Reserve is assessed as lower inherent risk as its accounting treatment is straightforward, representing amounts set aside for specific purposes with movements driven by management decisions rather than complex statutory or technical adjustments. There is limited susceptibility to management bias, as complexity and funding implications primarily reside within the General Fund rather than the reserve itself.
Capital Adjustment Account	Higher inherent risk	The Capital Adjustment Account is assessed as higher inherent risk due to its high level of technical complexity and volume of statutory and accounting adjustments arising from capital transactions, asset valuations, depreciation and financing movements. While it interacts directly with the General Fund and requires precise application of capital finance regulations, no specific factors have been identified that would elevate this to a significant risk.

Rebuilding assurance over reserves – Risk assessment

4. Implications for the 2025/26 audit

Our risk assessment process has found that the pre-2023/24 gaps in assurance - particularly those relating to reserves and other cumulative balances - can be sufficiently addressed as part of the 2025/26 audit, supporting future progression towards an unmodified audit opinion.

Before we commence our audit procedures, it will be essential for management to have completed a robust review and reconciliation of both usable and unusable reserves in the disclaimed periods, and to provide assurance to Those Charged with Governance that these balances are accurate, supportable, and appropriately documented. This reflects management's primary responsibility for preparing the financial statements and maintaining the underlying evidence base.

To rebuild assurance over the historic position, we will need to audit certain transactions and movements from 2022/23. We will share details of these transactions with management and will require confirmation that high-quality working papers and supporting evidence can be provided, together with sufficient management capacity to support this historic rebuild without compromising the delivery of planned audit procedures for 2025/26 over closing balances and in-year movements. We will then take the decision, with management, when is most appropriate time to commence the rebuild of reserves.

5. Fees

The activities undertaken in relation to this risk assessment, the preparation of the submission required by MHCLG, and the drafting of this addendum are outside the scope of the scale fee set out in our Audit Planning Report issued on 22 April 2026. In addition, procedures relating to the rebuilding of historical assurance will also be outside the scale fee.

Accordingly, we will seek a variation to the scale fee to reflect these changes to the scope of our work and will communicate further through our reporting once the costs are agreed.

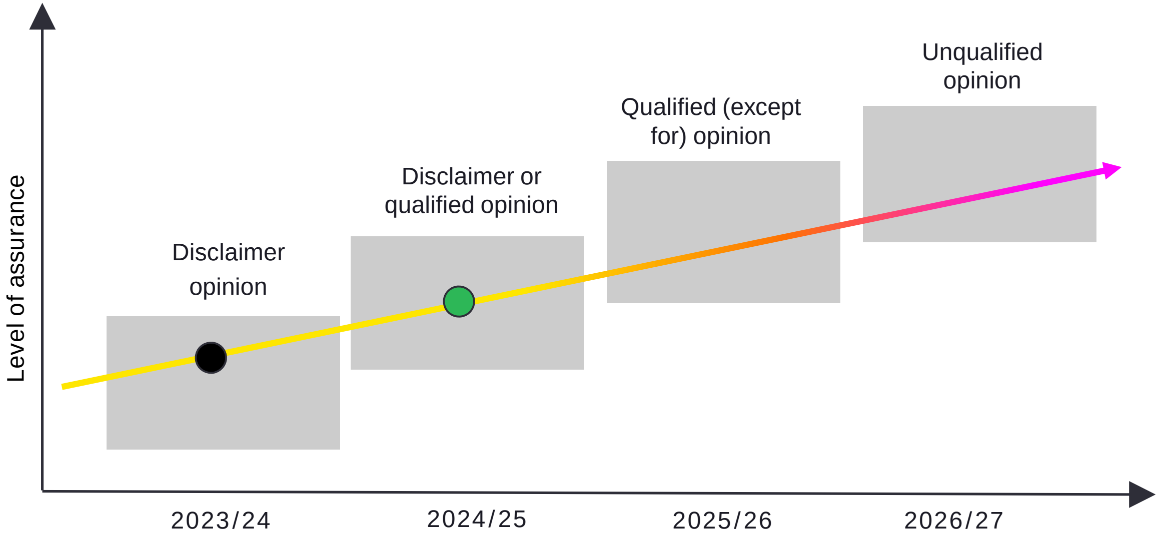
Appendix A

Appendix A – Rebuilding assurance

Progress to full assurance

The chart below illustrates the expected timescale for rebuilding audit assurance as set out in the NAO's LARRIG 01. It also shows our assessment of the Authority's progress against that illustrative timescale, together with the reasons for that assessment and the key actions required to successfully rebuild assurance.

The guidance recognises that the journey to full assurance - and therefore an unqualified audit opinion - will typically take a number of years. Progress depends on sustained coordination and engagement between the Authority and the audit team across successive audit cycles. Since 2022/23, we have applied a structured, risk-based prioritisation approach to local government audits. This approach is designed to support a return to unqualified audit opinions wherever feasible, while continuing to meet the statutory backstop requirements introduced as part of the local audit reset.



New Forest National Park Authority progress

- A qualified audit opinion was issued for 2024/25 which drew attention to lack of assurance over classification of reserves between usable and unusable.
- In 2023/24 a disclaimer of opinion was issued due to the application of the backstop.

In our view, the Authority's progress is in line with the expected timescales set out in LARRIG 01. The focus of the rebuild work for the Authority is now on reserves.

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