Grant Thornton

The Audit Findings for South Downs National Park

Year ended 31 March 2019

18 July 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Downs National Park ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements: • give a true and fair view of the financial position of the Authority's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the performance framework and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on pages 6 to 10. We have identified several adjustments to the financial statements that have resulted in a £182k adjustment to the Authority's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A. At the date of writing this report our work is substantially complete, subject to the following outstanding matters; - completing work around the actuarial estimate of the net pension liability, including obtaining actuarial input to confirm that the estimate of additional liability relating to the McCloud Court of Appeal decision and the Guaranteed Minimum Pensions High Court decision are immaterial to the accounts and therefore do not require an adjustment; - obtaining a letter from the West Sussex Pension Fund auditor from which we take assurance over the systems and controls that take place at the Pension Fund and which could impact the pension liability; - receipt of an investment confirmation letter from Lloyds; - completion of our work in agreeing the reasonableness of the Cash Flow statement and Movement in Reserves notes and disclosures; - finalising Manager and Engagement Lead review of completed sections of our file which could potentially raise additional audit queries; - receipt of management representation letter (included in Committee papers); and - review of the final amended set of financial statements. The only outstanding work which could require a modification audit opinion or a material change to the financial statements is the work on the net pension liability. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that South Downs National Park Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 13 to 15.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. At the date of writing this report, we have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you in February 2019, except for changing our risk rating round the presumed risk that revenue may be misstated due to the improper recognition of revenue which required us to carry out additional substantive testing of fees, charges and other service income.

Conclusion

We have substantially completed our audit of your financial statements and subject to completion of the work on page 3 and outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Policy and Resources Committee meeting on 18 July 2019, as detailed in Appendix C.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for the Authority.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£246,000	We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year.
Performance materiality	£184,000	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk".
Trivial matters	£13,000	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance

Audit findings – Significant risks

Risks identified in our Audit Plan	Commentary
1 **The revenue cycle includes fraudulent transactions** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We initially rebutted this risk for revenue as a whole as reported in our audit plan, however on further analysis of the fees, charges and other service income we identified recognition of these revenues and associated receivables at they year end as a significant risk at the start of our fieldwork. The risk particularly related to the complexity of recognition and ensuring correct period cut off for fees charges and other service income which we concluded was in fact a significant risk of material misstatement. We identified recognition of Section 106 revenues as a risk in our audit plan and we have combined this with this risk. Note recognition of several key revenues in year is by release of deferred contribution revenues to match related expenditure. Therefore the risk further relates to associated payables (deferred revenues) at the year end.	**Auditor commentary** Our work included: • substantive sample based testing of fees, charges and other service income. This included specifically a sample across Section 106 and Community Infrastructure Levy (CIL) income; - revenue cut off testing of a sample of revenue entries in the General Ledger to ensure they had been accounted for in the correct period. In our testing of CIL and Section 106 revenues we found 4 cut off accounting errors resulting in one adjustment to the accounts and 2 errors which are below performance materiality and remain unadjusted: - An adjusted error of £312k where revenues in 2018/19 were understated; - An adjusted error of £130k where revenues which should have been recognised in previous periods were recognised in the 2018/19 period. These historic Section 106 agreement contributions had been missed entirely from the accounts in those previous periods; - An unadjusted error in the brought forward deferred revenues which meant in year 2018/19 revenues were overstated by £134k; - An unadjusted error in deferred revenues which meant in year 2018/19 revenues were understated by £78k; We have made 3 recommendations to improve controls in our Action Plan, Appendix A, page 17-18: - We recommend that a review of Section 106 agreement terms is made to confirm which agreements do include fund claw back terms and to ensure that the revenues are correctly accounted for in line with the agreement terms. - We recommend that a clear register/schedule of Section 106 agreements is maintained and regularly reconciled to the general ledger. - We recommend that a review of CIL agreements are made to ensure that revenue is recognised upon commencement of development.
2 **Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** Our work included: • evaluating the design effectiveness of management controls over journals; • analysing the journals listing and determine the criteria for selecting high risk unusual journals; • testing unusual journals recorded for appropriateness and corroboration; • gaining an understanding of the accounting estimates and critical judgements applied made by management and considering their reasonableness with regard to corroborative evidence; • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Audit findings – Significant risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of land and buildings (Annual revaluation)** The Authority revalues its other land and buildings (ie. the South Downs Centre) on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the number involved and the sensitivity of this estimate to changes in key assumptions. Management engage the services of a professional valuer each year to estimate the current value of this asset as at 31/03/2019. 100% of land and buildings were revalued during 2018/19. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	**Auditor commentary** Our work included: • evaluating management's process and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluating the competence, capabilities and objectivity of the valuation expert; • writing to the valuer to confirm the basis on which the valuation was carried out; • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • testing the revaluation made during the year to ensure it was input correctly into the Authority's asset register; Other land and buildings comprises £1.835m of land and buildings which are not considered to be specialised in nature and are required to be valued at existing use in value (EUV) at year end. The valuation of properties valued by the valuer has resulted in a net increase of £79k. We concluded: • management’s valuation expert was clearly competent, capable and objective; • management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work were adequate; • the assumptions and information used by the valuer were reasonable; • the judgement’s underlying the estimate were discussed and challenged and we concluded that they are reasonable; • there was no change to the valuation method in the 2018/19 year and the EUV revaluation measurement base is consistent with other similar public sector bodies; • the estimate is clearly disclosed in the financial statements. Our audit work has not identified any issues in respect of valuation of land and buildings.

Audit findings – Significant risks

Risks identified in our Audit Plan	Commentary
4 **Valuation of pension fund net liability** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	**Auditor commentary** Our work included: • documenting our understanding of the process and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluating the design of the associated controls; • liaising with the auditors of West Sussex Pension Fund to evaluate the instructions and accuracy/completeness of information issued by the Pension Fund to their management expert (actuary – Hymans Robertson) for this estimate and the scope of the actuary's work; • assessing the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional focussed audit procedures suggested within the report; and • obtaining assurances from the auditor of West Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. As reported on page 3 our work on this risk is not yet complete at the date of writing this report, and we had raised a number of audit queries around - specific changes to the financial assumptions which were outside of our expectations as provided by the consulting actuary (as auditor's expert); - analytical queries around the level of pension fund assets/liabilities and variance year on year; - challenging the estimate of the valuation by the actuary of potential increased liabilities relating to the McCloud case and Guaranteed Minimum Pensions (GMP). The McCloud case relates to the Court of Appeal ruling that there was age discrimination in certain public sector pension schemes where there were transitional protections given to scheme members. The GMP case relates to the High Court ruling that GMPs must be equalised between men and women and that past underpayments must be corrected. Our view is that both cases give rise to a past service cost and liability within the scope of IAS 19 as the ruling creates a new obligation which should be accurately estimated and either included in the accounts if material, or disclosed clearly if immaterial. An estimate had been provided by the pension fund administering authority, but this was not considered sufficiently accurate to conclude on the issue of materiality and therefore the suitable treatment of the estimated liability. At the date of writing this report we are in discussion with management to obtain a more accurate estimate of the potential liabilities which would allow us to resolve this outstanding audit issue. We will update the Committee on the outcome of this work at the meeting on 18 July 2019. We have provided further information on our work around the financial assumptions used by the actuary on the key judgements and estimates page 8.

Audit findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £2.879m	The Authority's net pension liability at 31 March 2019 is £2.879m (PY £1.053m) comprising the West Sussex Pension Fund Local Government defined benefit pension scheme obligations. The Authority uses Hymans Robertson as their actuarial expert to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £1.826m net actuarial loss during 2018/19.	• management's actuarial expert was clearly competent, capable and objective; • we have used the work and report of a consulting actuary (as auditor's expert) to confirm that the actuarial method of calculating the estimate, including the roll forward approach, is reasonable; • The information used by the actuary was complete and accurate; • The auditors' expert has also assessed the assumptions made by your actuary providing the auditor with indicative ranges for assumptions. Where the actuary has applied a different assumption for the Authority estimate we have challenged the reasoning behind this:	Yellow

Assumption	Actuary Value	Auditors expert range	Assessment
Discount rate	2.5%	2.4-2.5%	Green
Pension increase rate	2.4%	2.4-2.5%	Green
RPI	3.4%	3.4-3.5%	Green
Life expectancy – Males currently aged 45 / 65	23.6/26	21.5-22.8 / 23.7-24.5	Green
Life expectancy – Females currently aged 45 / 65	25/27.8	24.1-25.1 / 26.2-26.9	Green

- the authority's duration of liabilities and life expectancy were outside the suggested normal range. We carried out further work to obtain supporting information demonstrating that SDNP does have a particularly young average workforce age;
- analytical procedures showed the Authority's share of LGPS pension assets was reasonable;
- the disclosure of the estimate in the financial statements was considered adequate;
- As at the date of writing this report we are still completing analytical procedures to conclude on the reasonableness of increase in estimate of the liability at the 31 March 2019. We will verbally update the committee on the outcome of this work at the meeting on 18 July 2019.

Assessment
- (Red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- (Amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- (Yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- (Green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Audit findings findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
1	**Overstatement of prepayments debtors and creditors**	• In our testing of prepayments and creditors we identified an overstatement of creditors and debtors prepayments by £189k. The creditor was initially incorrectly recognised, and then the prepayment was entered to reverse the effect of the original entry, but this had the effect of overstating both creditors and debtors incorrectly by the same amount. Under International Financial Reporting Standards (IFRS) the creditor should not be recognised until the payment was due/service received, and a prepayment should not have been recognised until a payment is made.	**Auditor view** • Under IFRS the prepayment and creditor should not have been recognised. Management have agreed to make an adjustment to remove the asset and liability, with no impact on the Authority's Comprehensive Income and Expenditure Statement. We have recorded this in our schedule of adjusted misstatements in Appendix B page 19-20. • We have also made a control recommendation relating to this as recorded in Appendix A page 17-18.
2	**Operating expenditure minor errors**	• In our testing of operating expenditure we found a small number of minor errors. We extended our samples to gain comfort these were not reflective of a high level of errors in the population, and then extrapolated the errors found to form a view of the maximum level of potential cut off error. These extrapolated error estimates were above our trivial threshold and therefore we must report them to those charged with governance. They are very immaterial in total size and as they are based on an estimate we would not propose they are adjusted in the accounts.	**Auditor view** • We have recorded these errors in our schedule of adjusted misstatements in Appendix B page 19-20. • We have made 2 control recommendation relating to these errors as recorded in Appendix A page 17-18.

Audit findings - Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Detailed budgeting processes for the 2019/20 year and then overview budgeting for 3 further years including the impact on reserves and cash flow periods	• Management have adopted going concern basis of accounting. The financial statements are prepared on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future. As National Park Authorities cannot be created or dissolved without statutory prescription, the Authority must prepare its financial statements on a going concern basis. • Management have a detailed a robust process in place for budgeting for the immediate year ahead and then producing a detailed Medium Term Financial Strategy that extends forward 3 years beyond 31/03/2020. This process includes the impacts on reserves and cash levels. • The Section 151 officer develops the Budget and Medium Term Financial Strategy and these are reported to the National Park Authority (NPA) for approval and noting respectively.
Work performed	**Auditor commentary**
We have reviews the processes in place for building the Budget and Medium Term Financial Strategy. We have reviewed and challenged the underlying assumptions.	• We were satisfied that management’s processes in place for budgeting ahead and considering the going concern basis of accounting were adequate.
Concluding comments	**Auditor commentary**
	• We identified no issues with management’s use of the going concern assumption in the preparation and presentation of the financial statements

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Authority, which is included in the Policy and Resources Committee papers.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to bank and investment counterparties. This permission was granted and these requests were returned with positive confirmation. • We have made inquiries to the Authority's legal counsel during the year. As at the date of writing this report we have not received this response and we are following this up.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. **No inconsistencies have been identified to date, but we are still completing our work in this area as at the date of writing this report.**
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Authority does not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of the Authority in the audit opinion, as detailed in Appendix C.

Value for Money

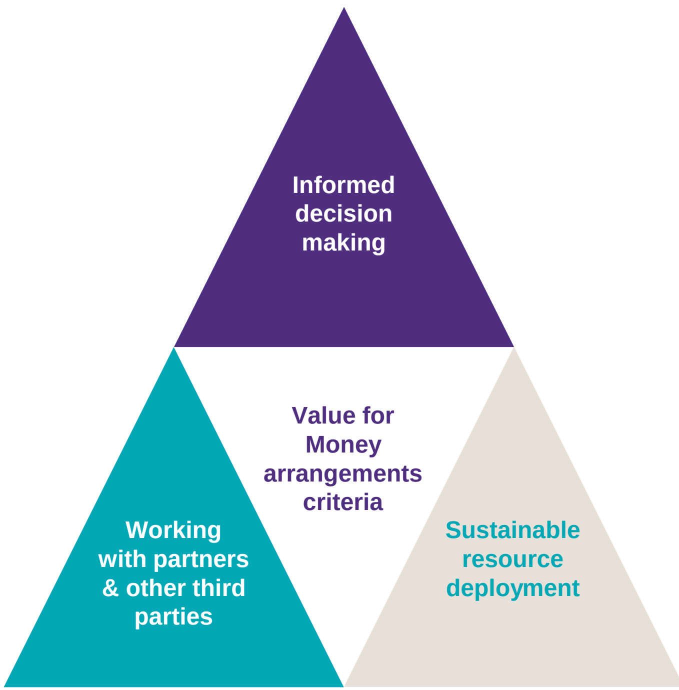
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 28 February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Authority's arrangements. On the following page we have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Work Completed and Findings	Conclusion
1	**Medium Term Financial Resilience** For the 2018/19 financial year the Authority set a gross revenue budget of £12.065m with a small £0.104m contribution to reserves. The reported outturn showed that the Authority achieved a below budget (a net income/surplus) position of £0.369m. This performance has allowed the general fund balance to grow from £5.119m to £5.723m. A refreshed Medium Term Financial Strategy was presented to the March Authority meeting. The current Medium Term Financial Strategy forecasts that the Authority will achieve a surplus each year from 2018/19 through to 2021/22. Our risk assessment suggested that the Authority is well managed in terms of medium term financial resilience. Due to the clear financial challenges across the public sector and also our lack of cumulative knowledge of your financial planning processes we identified the Authority's Medium Term Financial Resilience as a Value for Money risk area. We have carried this work out primarily as a desktop review of the budgeting processes and assumptions for reasonableness against our own knowledge of the wider sector and similar public sector entities.	**We reviewed the budget monitoring processes that the Authority has in place to ensure that budgetary performance is in line with expectations and to identify and address any unusual variances** The Policy and Resources Committee is the key budget monitoring mechanism. We reviewed minutes of the discussions of this Committee during the year and confirmed that budget reports analysed across each of the four service areas were presented and discussed in detail. Variances on budget are highlighted along with explanatory commentary. Budget virements, capital outturn, the reserves position and treasury management are also reported in detail with graphical illustrations of variances. Our view was that members of this Committee are kept well informed to fulfil their role in ensuring the Authority's funds are used in an economic, efficient and effective way. **We reviewed the overall framework in place to ensure financial risk is managed. This was through our risk assessment procedures where we reviewed the organisational controls and discussed the framework with senior management and internal audit to document our understanding** Risk is monitored at the organisational level through the central corporate risk register which is reviewed by the Policy and Resources Committee, with more local risk monitoring undertaken by officers through Directorate and Project level risk registers. We reviewed the Financial Regulations and Procedures, the Treasury Management Policy and the Annual Investment Strategy and were satisfied that these are sufficiently detailed and robust to ensure policies are known to officers. Internal Audit carry out regular reviews which are reported to the Policy and Resources Committee. We have reviewed the work of Internal Audit and discussed the control environment with them and we were satisfied that the framework in place to manage financial risk is in line with our expectations for a public sector entity of this size.	**Auditor view** Through the work completed and our findings as documented adjacent we have concluded that South Downs National Park had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Key findings (continued)

	Significant risk	Work Completed and Findings	Conclusion
1	**Medium Term Financial Resilience** (Continued)	**We reviewed the methods and assumptions underlying the Medium Term Financial Strategy through discussion with officers of the forward budgeting process and the key assumptions made** The method for building the Medium Term Financial Strategy through to 2022/23 has been to use the 2018/19 detailed budget as a starting point and then to prudently layer on expenditure commitments; expected changes to revenues; inflationary assumptions and savings plans to reach a 4 year forecast. The updated Medium Term Financial Strategy reported to the June Policy and Resources Committee showed a net breakeven position with contributions to reserves each year. The key assumptions implicit in the 4 year forecast are: - Core grant income assumption: confirmed allocation for 2019/20 with no changes thereafter; - Inflationary pay assumptions, but other expenditure inflation will be offset by efficiency savings; - Planning income assumed to stay at the same level as in the 2019/20 budget. We are satisfied that the methods and assumptions underlying the forecasting process are reasonable, and are in line with our expectations and knowledge of similar entity processes across the public sector.	**See above**

Independence, ethics and fees

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Authority's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Authority's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are shown below.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified.

Audit Fees

We confirm below our final fees charged for the audit. There were no fees during the 2018/19 year for the provision of non audit services.

	Proposed fee	Final fee
Authority Audit	£10,825	£TBC
Total audit fees (excluding VAT)	£10,825	**£TBC**

Action plan

We have identified 5 recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	**CIL Revenue Cut Off** In our testing we found a number of CIL revenue cut off errors including one which resulted in a material adjustment to the accounts. There is a risk going forward that this type of error could continue to cause misstatements in future periods.	• We recommend that a review of CIL agreements are made to ensure that revenue is recognised upon commencement of development. **Management response** • Recognition of CIL income has previously been made upon notification of demand notices being issued to developers. Processes relating to CIL and Section 106 agreements are currently being reviewed and developed by the Planning service and Brighton & Hove City Council. This will include a regular reconciliation between service and financial systems to ensure that revenue is recognised upon commencement of development.
2	●	**Recognition of S106 Revenues** In our testing we found a number of Section 106 revenue errors where: 1. Revenues were incorrectly deferred where officers believed there was a claw back term. 2. Revenues which should have been recognised in previous periods were recognised in the 2018/19 period. These historic Section 106 agreement contributions had been missed entirely from the accounts in those previous periods. 3. Revenues which should have been recognized in previous periods were instead recognized in the current period. Officers have carried out a retrospective review of S106 agreements to assess whether there could be other instances of this, but there is still a risk that this type of error could continue to cause misstatements in future periods.	• We recommend that a review of Section 106 agreement terms is made to confirm which agreements do include fund claw back terms and to ensure that the revenues are correctly accounted for in line with the agreement terms. • We also recommend that a clear register/schedule of Section 106 agreements is maintained and regularly reconciled to the general ledger. **Management response** • Processes relating to CIL and Section 106 agreements are currently being reviewed and developed by the Planning service and Brighton & Hove City Council. This will include a regular review of when developments have commenced and therefore when claw back terms have concluded, to ensure that the revenues are correctly accounted for in line with the agreement terms.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan

	Assessment	Issue and risk	Recommendations
3	Medium	**Prepayments/Creditors overstatement** In our testing of prepayments and creditors we identified an overstatement of creditors and debtors prepayments by £189k. The creditor was initially incorrectly recognised, and then the prepayment was entered to reverse the effect of the original entry, but this had the effect of overstating both creditors and debtors incorrectly by the same amount. Under International Financial Reporting Standards (IFRS) the creditor should not be recognised until the payment was due/service received, and a prepayment should not have been recognised until a payment is made. There is a risk this issue could also occur in future periods at the year end.	• We recommend that to avoid this issue occurring again that larger invoices received at year end which relate to the next financial period are reviewed before they are entered onto the ledger to ensure they do not get incorrectly accounted for as expenditure in the current year. **Management response** • A further process will be included as part of future working papers to ensure that any material prepayment accruals relate to actual payments made and do not have corresponding creditors balances for the same transaction.
4	Low	**Expenditure cut off** In our testing of operating expenditure we found a small number of cut off errors where accruals had been missed.	• We recommend that a review of post year end payments/expenditure invoices are made to ensure that accruals are correctly picked up and accounted for. **Management response** • A review of post year end payments / expenditure invoices is currently undertaken to identify incorrectly accounted transactions. This will continue to be done with a focus on large material items. Closedown training for budget holders and support staff will be carried out to ensure that year end accounting requirements are understood.
5	Low	**VAT Treatment** In our testing of operating expenditure we found an error where VAT had been incorrectly included in expenditure rather than accounted for as a VAT debtor.	• We recommend that regular spot checks are carried out to ensure that VAT has been correctly accounted for. **Management response** • Regular spot checks will be carried out, with a focus on large material items. Closedown training for budget holders and support staff will be reviewed to ensure that accounting for VAT is included. Resources available on the Authority's intranet relating to VAT will also be reviewed.

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Revenue cut off error of £312k where revenues in 2018/19 were understated. The associated short term debtor was also understated at the year end.	(£312)	Dr Receivable £312	(£312)
2	Error overstating prepayment debtors and creditors	Nil	DR Creditors Control £189 CR Prepayment Debtors (£189)	Nil
3	Brought forward revenue cut off error of £130k where revenues have been recognised in 2018/19 which should have been recognised in prior periods. These should have been brought forward as a receivable and general fund reserves.	£130	CR Receivables (in year) £130 Brought forward adjustment: DR b/f Receivables £130 CR b/f GF Reserve (£130)	£130
	Overall impact	(£182)		(£182)

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
1	Disclosures	Various minor amendments to the disclosures in the accounts to improve the presentation of the financial statements.	✓
2	Financial Instruments	Cash had been omitted from the primary summary of financial instruments disclosure.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Policy and Resources Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	Error in the brought forward deferred revenues - in year 2018/19 revenues were overstated by £134k	£134	(£134)	£134	Below our performance materiality
2	Error in the brought forward deferred revenues - in year 2018/19 revenues were understated by £78k	(£78)	£78	(£78)	Below our performance materiality
3	Extrapolated operating expenditure testing errors – both overstated expenditure, one item relating to a prior year and the other relating to expenditure including VAT which should have been accounted for as a creditor	(£25)	£25	(£25)	Below our performance materiality
4	Extrapolated expenditure cut off testing errors – 2 errors were found whereby expenditure was not correctly accrued into the 2018/19 year and therefore operating expenditure was understated	£14	(£14)	£14	Below our performance materiality
	Overall impact	£45	(£45)	(£45)	

Audit opinion

We anticipate we will provide the Authority with an unmodified audit report:

Independent auditor's report to the members of South Downs National Park Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of South Downs National Park Authority (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including the summary of Accounting Policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider

whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- 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 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Policy and Resources Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Audit opinion (continued)

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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 for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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 2017, as to whether in all significant respects the Authority 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 under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of South Downs National Park Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Darren Wells
for and on behalf of Grant Thornton UK LLP, Local Auditor

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Date

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