



The Annual Audit Letter for South Downs National Park Authority

Year ended 31 March 2019

October 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at South Downs National Park ('the Authority') for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Policy and Resources Committee as those charged with governance in our Audit Findings Report 18 July 2019.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Authority's financial statements to be £246,000, which is 2% of the Authority's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 31 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 31 July 2019.

Certificate We certified that we have completed the audit of the financial statements of South Downs National Park Authority in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Working with the Authority

During the year we have delivered a number of successful outcomes with you:

- We made 5 recommendations for controls and systems improvements in our Action Plan as reported to the Policy and Resources Committee in July 2019. Implementation of these recommendations will be followed up with your finance team in the 2019/20 year;
- Sharing our insight – we provided regular audit committee updates covering best practice. We also share our thought leadership reports

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Authority's financial statements to be £246,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We set a lower threshold of £13,000, above which we reported errors to the Policy and Resources Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the Narrative Report and Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Authority and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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.</p> <p>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.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> • 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. 	<p>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:</p> <ul style="list-style-type: none"> - 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. <p>After adjustment of these errors we were satisfied that revenues were materially correctly stated.</p> <p>We have made 3 recommendations to improve controls as follows:</p> <ul style="list-style-type: none"> - We recommended 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 recommended that a clear register/schedule of Section 106 agreements is maintained and regularly reconciled to the general ledger. - We recommended that a review of CIL agreements are made to ensure that revenue is recognised upon commencement of development.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings (Annual revaluation)</p> <p>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.</p> <p>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.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> 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; 	<p>We concluded:</p> <ul style="list-style-type: none"> 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. <p>Our audit work did not identify any issues in respect of valuation of land and buildings.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> 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. 	<p>Due to national developments around public sector pensions (see page 9 for more detail) we were required to carry out more extensive work to challenge the actuary's estimate of the potential liability for McCloud and Guaranteed Minimum Pensions. An initial 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. Therefore we requested an updated estimate verified by the actuary and reviewed the method and assumptions made in coming to this estimate.</p> <p>In completing this work we were able to conclude that the potential additional liabilities were not material and therefore the pension fund net liability in the accounts was materially correctly stated.</p> <p>Our audit work did not identify any further issues in respect of the pension fund net liability.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 31 July 2019.

Preparation of the financial statements

The Authority presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Authority's Policy and Resources Committee on 18 July 2019.

We identified 3 significant adjustments to the Authority's draft accounts during the audit from the work on risks documented above. These led to further investigatory work to confirm the extent of the errors, and we then issues control/system recommendations to address the underlying causes of these errors.

During the 2018/19 financial year there were two significant cases relating to pensions liabilities:

- (a) the McCloud case relating 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.
- (b) The GMP case relating 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, and therefore these developments required a significant amount of additional work to gain assurance that the net pension liability reflected in the financial statements was materially complete.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

We carried out work on the Authority's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Authority was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Resilience</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>As part of our work we have:</p> <ol style="list-style-type: none"> 1. 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 2. 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 3. 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 	<p>1. 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.</p> <p>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.</p> <p>2. 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.</p> <p>3. 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 the Core grant income assumption, Inflationary pay assumptions, income assumed to stay at the same level as in the 2019/20 budget.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and **confirm there were no fees for the provision of non audit services.**

Reports issued

Report	Date issued
Audit Plan	28 February 2019
Audit Findings Report	18 July 2019
Annual Audit Letter	31 October 2019

Fees

	Planned £	Actual fees £
Statutory audit	10,825	12,325
Total fees	10,825	12,325

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £10,825 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£400
Pensions – IAS 19	The Financial Reporting Authority has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£400
PPE Valuation – work of experts	As above, the Financial Reporting Authority has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£700
Total		£1,500

Fee variations are subject to PSAA approval.

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Authority companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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