

Report to	<b>Policy &amp; Resources Committee</b>
Date	<b>25 February 2021</b>
By	<b>Grant Thornton (External Audit)</b>
Title of Report (Note)	<b>External Audit Annual Audit Letter 2019/20</b>

**Recommendation: That the Committee:**

**1) Considers the Annual Audit Letter 2019/20.**

**I. Audit Plan 2019/20**

- I.1 We are required to issue an Annual Audit Letter (**Appendix I**) to summarise the key findings arising from the work that we have carried out at South Downs National Park for the year ended 31 March 2020. It consolidates the communication of our work during the 2019/20 year, including the results of our audit of the Authority's financial statements and our statutory conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.
- I.2 The report is a shortened summary of our Audit Findings Report for ease of reference and does not report any new or different findings from those reported to the Policy and Resources Committee meeting in November 2020 within that report.
- I.3 Following consideration of the letter by the Committee, the Authority is required to publish the Annual Audit letter, including on the Authority website.

**GRANT THORNTON**

**External Auditor**

**South Downs National Park Authority**

Contact Officer: Andy Conlan – Manager  
 Tel: 020 7728 2492  
 email: [Andy.n.conlan@uk.gt.com](mailto:Andy.n.conlan@uk.gt.com)  
 Appendices: I. Annual Audit Letter 2018/19





# The Annual Audit Letter for South Downs National Park Authority

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**Year ended 31 March 2020**

**25 February 2021**



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## Your key Grant Thornton team members are:

Darren Wells

Engagement Lead

T: 01293 554120

E: darren.j.wells@uk.gt.com

Andy Conlan

Engagement Manager

T: 02077 282492

E: andy.n.conlan@uk.gt.com

Aman Harees

In-Charge

T: 01293 554098

E: aman.a.harees@uk.gt.com

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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 Authority (the Authority) for the year ended 31 March 2020.

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 on 26 November 2020.

## 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.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Authority's financial statements to be £302k, which is 1.99% of the Authority's gross cost of services.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Authority's financial statements on 30 November 2020.  We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Authority's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Authority's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

# Executive Summary (continued)

<b>Value for Money arrangements</b>	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 30 November 2020.
<b>Certificate</b>	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 30 November 2020.

## Working with the Authority

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the authority and on the normal operating of the statutory audit. We updated our audit risk assessment to consider the impact of the pandemic on our audit and we reported a financial statement level risk in respect of Covid-19 and highlighted the impact on our VfM approach.

Restrictions for non-essential travel meant both Authority and audit staff worked remotely, including the remote accessing of financial systems, video calling, and verifying the completeness, accuracy of information produced by the entity through online screensharing.

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**  
February 2021

# 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 £302k, which is 1.99% of the Authority's gross cost of services. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where Authority has spent its revenue in the year.

We set a lower threshold of £15.1k, 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 Statement of Accounts to check it is consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts 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 (continued)

## 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><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The current circumstances have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>- Remote working arrangements and redeployment of staff to front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The completed draft financial statements were provided on 2<sup>nd</sup> July 2020;</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Authority's property valuation expert;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and</li> <li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul>	<p>As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, material uncertainties have been declared by the professional valuer relating to land and buildings, and also by an investment manager for pooled property investments underlying the net pension liability.</p> <p>The uncertainty in the PPE valuation was accurately disclosed in the sources of estimation uncertainty note in Note 3 Critical Judgements and Assumptions Made. The material uncertainty relating to the pooled property investment underlying the net pension liability was also disclosed in Note 3 Critical Judgements and Assumptions Made, after the issue had been highlighted by the pension fund administrator.</p> <p>We included an 'Emphasis of Matter' in our audit opinion to ensure that users of the accounts are aware of these matters.</p>

# Audit of the Financial Statements (continued)

## Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></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.</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>We:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value;</li> <li>tested revaluations made during the year to see if they had been input correctly into the Authority's asset register.</li> </ul>	<p>Aside from the issue detailed on the page above in relation to the Covid-19 risk, our audit work did not identify any issues in respect of valuation of land and buildings.</p>

# Audit of the Financial Statements (continued)

## Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b> 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>We :</p> <ul style="list-style-type: none"> <li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>• written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code;</li> <li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>• assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value;</li> <li>• tested revaluations made during the year to see if they had been input correctly into the Authority's asset register.</li> </ul>	<p>Aside from the issue detailed on the page above in relation to the Covid-19 risk, our audit work did not identify any issues in respect of valuation of the net pension liability.</p>

# Audit of the Financial Statements (continued)

## Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>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.</p> <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• tested unusual journals recorded during the year and as part of accounts production for appropriateness and corroboration;</li> <li>• gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence;</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p><b>The revenue cycle includes fraudulent transactions</b></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>For this Authority, we have concluded that the greatest risk of material misstatement relates to fees, charges and other service income including s.106 and Community Infrastructure Levy (CIL) income, because the cut off accounting treatment of such revenues are subject to subjective judgement applied by management and potential human error in application of this judgement.</p> <p>We have therefore identified the occurrence and cut off of fees, charges and other service income including s.106 and Community Infrastructure Levy (CIL) income as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>We have rebutted this presumed risk for the other revenue streams of the Authority.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• evaluated your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice;</li> <li>• updated our understanding of your system for accounting for income and evaluate the design of the associated controls;</li> <li>• reviewed and sample tested income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised; and</li> <li>• evaluated and challenged significant estimates and the judgments made by management in the recognition of income.</li> </ul>	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>

# Audit of the Financial Statements (continued)

## **Audit opinion**

We gave an unqualified opinion on the Authority's financial statements on 30 November 2020.

## **Preparation of the financial statements**

The Authority presented us with draft financial statements in July 2020 in accordance with the agreed timescale, and provided a reasonably complete set of working papers to support them. There were some delays in provision of supporting documentation for our audit samples, and both teams had to adapt rapidly to performing the audit entirely remotely.

Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams had to perform the audit entirely remotely. This has required the audit team to use regular video calls to keep in close contact, to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements and to carry out additional tests to corroborate the completeness and accuracy of information produced by the Authority which we would otherwise have performed in person on site.

As communicated in our Audit Findings Report, these factors and additional complexities have caused additional work for which we have proposed an audit fee variation. See page 13 for further details.

## **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 26 November 2020.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Authority's Annual Governance Statement and Narrative Report. 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.

## **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 30 November 2020.

# 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 April 2020 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

We carried out an initial risk assessment in January 2020 and concluded there were no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03 as communicated to you in our Audit Plan in January 2020. 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.

At the planning stage, our view was that there was no significant risk to Value for Money. Although the Authority has financial challenges, like other public bodies, in controlling expenditure and increasing income in the face of potential future reductions in government funding, we were of the view there was a strong financial grip and control in place to ensure medium term financial sustainability.

We have revisited our audit planning assessment in the light of Covid-19, and continued to update our knowledge of the Authority during the year by meeting with your senior finance officers and through desktop review of key documents and meeting minutes. This included understanding the impacts of the Covid-19 pandemic on the 2020/21 budget forecast and assessing the significance of this, and understanding the medium to long term impacts.

For the 2019/20 financial year, the Authority achieve a revenue outturn position which was £305k below the budgeted total outturn of £8,841k. The capital programme outturn was as planned at £125k. This below budget revenue outturn result has allowed further contribution to the reserves position. £141k of this was allocated to the Climate Change Fund reserve, and £164k was used to contribute to a total £375k Recovery Fund which was set up subsequent to the impact of the Covid-19 pandemic and the implications for

the 2020/21 financial year. This fund will support recovery in pursuit of the Authority's Partnership Management Plan objectives.

As at Month 4 in the 2020/21 year the forecast revenue outturn was a net above budget variance of £178k. As would be expected the most significant impacts of the pandemic have been on planning fee income which has been 20% below budget; a £250k reduction in income. This has been counteracted by corresponding reduction in expenditure on delegated planning agreements, and other reductions in expenditure.

A £178k above budget variance represents a 1.5% overall impact to the service budget, and is less than the £305k 2019/20 budget contribution to reserves. Based on this anticipated result the Park will continue to hold significant levels of reserves as a cushion against future uncertainties and potential reductions in government funding that could come about should there be a steep recession following the pandemic. The property market has remained quite steady during 2020/21 and should an effective vaccine permit some return to pre-pandemic life some recovery in planning fees and other fees should also be possible. At the date of audit completion the Medium Term Financial Strategy which was approved in March 2020 has not been reforecast due to the ongoing uncertainty about how the continuing impact of the pandemic will affect the Authority's income and expenditure. The plan at March 2020 had anticipated that the Authority would be able to make contributions to reserves based on an assumption of 1.7% annual uplifts to the National Park Grant from the 2020/21 allocation. Based on the impact on the current year the Authority will have a sufficient cushion of reserves to absorb potential grant/income reductions for the foreseeable future as long as it maintains its strong grip and control on expenditure as demonstrated to date.

## 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 2020.

## A. Reports issued and fees

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

### Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	November 2020
Annual Audit Letter	February 2021

### Fees

	Planned £	Actual fees £
Statutory audit	13,575	15,611
<b>Total fees</b>	<b>13,575</b>	<b>15,611</b>

### Audit fee variation

There is additional work which was necessary to be carried out during the audit due to the added complexities of the impact of Covid-19. This proposed fee variation has been communicated with your Chief Finance Officer, and is also subject to approval by Public Sector Audit Appointments (PSAA)



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