

# Northumberland National Park Authority

Annual Audit Letter for the year ended 31 March 2016

28 October 2016

Ernst & Young LLP

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In April 2015, Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure** - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## Executive Summary

We are required to issue an annual audit letter to Northumberland National Park Authority (the Authority) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Authority's:</b> ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
<b>Reports by exception:</b> ▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Authority.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Authority, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).</b>	The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Report was presented to the Finance and Audit Group on 17 August 2016 and the National Park Authority meeting on 14 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 14 September 2016.

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



Nicola Wright  
Executive Director  
For and on behalf of Ernst & Young LLP

## Purpose

### **The Purpose of this Letter**

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Authority.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the National Park Authority meeting on 14 September 2016, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Authority.

## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we presented in February 2016 to the Finance and Audit Group meeting and on 15 June 2016 to the National Park Authority meeting, and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2015/16 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Authority has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Authority;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Authority, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

## **Responsibilities of the Authority**

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Financial Statement Audit

### Key Issues

The Authority's Statement of Accounts is an important tool for the Authority to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Authority's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 14 September 2016.

Our detailed findings were reported to the National Park Authority meeting on 14 September 2016.

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

Significant Risk	Conclusion
<p><b>Management override of controls</b></p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We performed the following procedures to mitigate this risk:</p> <ul style="list-style-type: none"> <li>▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Reviewed accounting estimates for evidence of management bias; and</li> <li>▶ Evaluated the business rationale for any significant unusual transactions.</li> </ul> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.</p>
<p><b>Revenue and expenditure recognition</b></p> <p>Auditing standards also required us to presume that there is a risk that revenue may be misstated due to improper recognition or manipulation.</p>	<p>In response to the risk of revenue and expenditure recognition we:</p> <ul style="list-style-type: none"> <li>▶ Reviewed and tested revenue and expenditure recognition policies;</li> <li>▶ Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias, including</li> </ul>



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In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

significant provisions and accruals, and criteria for recognition of grant income;

- ▶ Developed a testing strategy to test material revenue and expenditure streams, with a particular focus on the completeness of expenditure; and
- ▶ Reviewed and tested revenue recognition and cut-off at the period end of grant income with specific conditions attached.

Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.

Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Authority's financial position.

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### Accounting for the Sill Project

The Sill capital project has commenced the build phase during 2015/16. As with any capital project the complexity and length of time to complete can vary once the build phase of the project commences.

Furthermore, the Authority's total budgeted expenditure for the Sill is £14.8m, of which 13% of this relates to operating expenditure.

Judgements and controls need to be effective to appropriately recognise the costs from this significant projects including:

- ▶ Appropriate split of costs between capital and operating expenditure;
- ▶ Accurate timing of asset recognition; and
- ▶ Assessment of the economic useful lives of the asset where costs are capitalised.

Additionally, the Authority's funding plan for the Sill project includes a Public Works Loan. The Authority has no previous loan arrangements and this is a significant new class of transaction.

Management will need to ensure that they accurately account for the loan and that all required disclosures are included in the financial statements.

In response to the risk we:

- ▶ Reviewed a sample of capital expenditure;
- ▶ Understood key controls and governance surrounding capital project accounting and management;
- ▶ Reviewed whether or not capitalisation of costs was appropriate;
- ▶ Considered whether at any stage assets needed to be impaired or written off;
- ▶ Met with management to discuss their proposed approach to accounting for the loan;
- ▶ Reviewed management's proposed accounting treatment and disclosures; and
- ▶ Reviewing the accounting entries and disclosures prepared against relevant accounting standards and the CIPFA code.

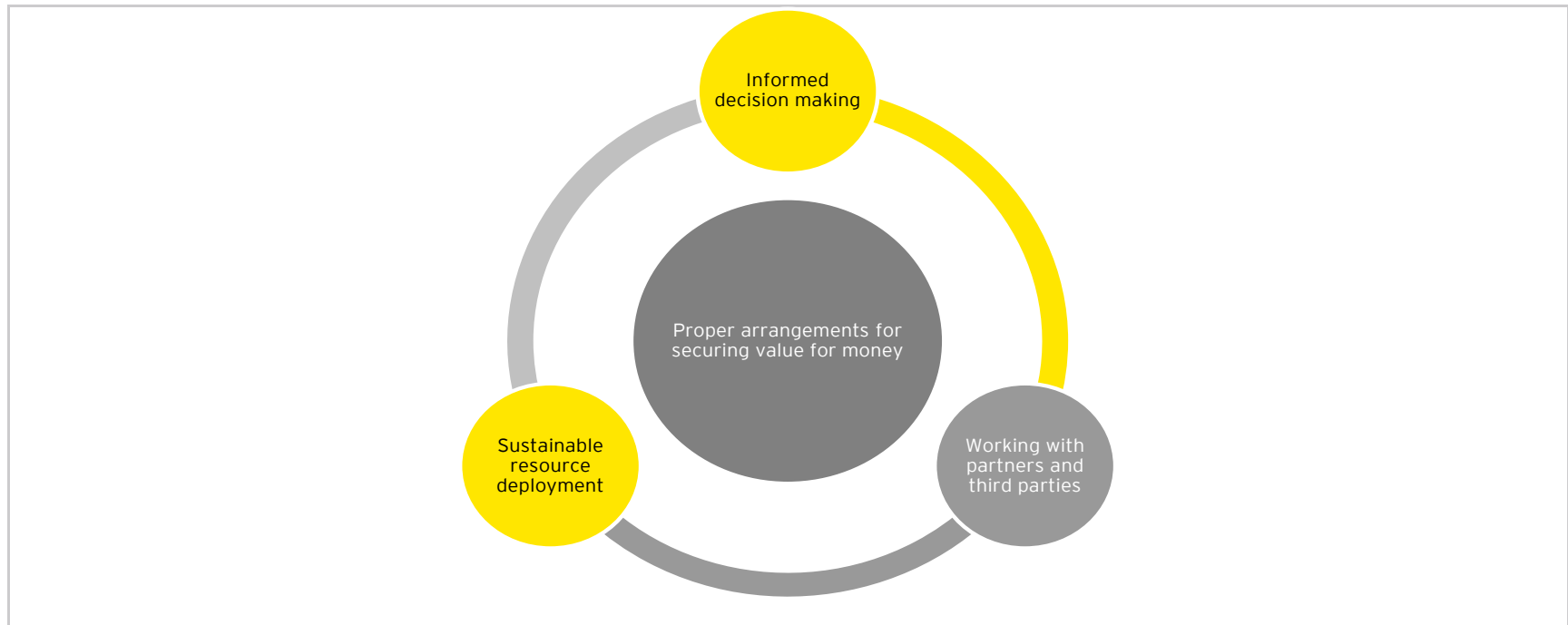
Our testing has not identified any material misstatements with respect to the Sill project.

## Value for Money

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 14 September 2016.

## Other Reporting Issues

### Whole of Government Accounts

The Authority is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Authority or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## **Independence**

We communicated our assessment of independence in our Audit Results Report to the National Park Authority on 14 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## **Control Themes and Observations**

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

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