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Northumberland National Park

Our Planning Report to Northumberland National Park Authority on the 2012/13 Audit

June 2013

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18 June 2013

Dear Sirs,

We have pleasure in setting out in this document our planning report to Northumberland National Park Authority for the year ended 31 March 2013.

This plan has been prepared to inform the members and staff of the Authority about our responsibilities as your external auditors and how we plan to discharge them. In this report we have set out the scope and approach of our audit including our initial view on what we consider to be your key audit risks.

Our audit risk assessment is continuously under review during the course of the audit period and should our assessment of risk fundamentally change we reserve the right to revisit the proposed work schedule. Any amendments to the Audit Plan will be discussed with management and agreed with the Authority.

We would like to take this opportunity to thank the management team for their on-going assistance.

For Deloitte LLP

Chartered Accountants
Newcastle Upon Tyne

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We have the pleasure in setting out in this document our planning report to the Members of Northumberland National Park Authority for the year ended 31 March 2013.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the planning of our audit work.

1. Strategic context

The government spending review resulted in a reduction in the funding provided by DEFRA of 33% over four years from 2011/12. The Authority's response has been a reassessment of the organisation as a whole and front loading of the necessary cuts to help manage any potential further cuts. This led to a number of redundancies in the prior year and a review of service provision especially in relation to the continued use of the Rothbury and Ingram visitor centres. There has also been an increased focus on expanding income generation to help offset the funding cuts.

Key developments in the year are the on-going design work in relation to the £10.5m 'The Sill' Landscape Discovery Centre for which a joint bid with the Youth Hostel Association will be submitted to the Heritage Lottery Fund and the continuing efforts to secure the International Dark Sky Reserve designation for the National Park.

We look forward to continuing to work with management as they move forward.

The nature and scope of our planned procedures are similar to those set out in our audit plan for the year ended 31 March 2012

2. Scope of work and approach
Audit scope

We conduct our audit in accordance with the Accounts and Audit Regulations 2011, the Code of Audit Practice 2010 issued by the Audit Commission and our audit of the statement of accounts in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board ("APB").

The Code requires that we:

- issue an opinion on the financial statements of the Authority;
- satisfy ourselves as to whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work; and
- issue an assurance report to the National Audit Office on the Authority's "Whole of Government Accounts" return.

Our work is carried out under the Code of Audit Practice 2010 issued by the Audit Commission

2. Scope of work and approach (continued)

Controls

As set out in "Briefing on audit matters" circulated to you with this report, our risk assessment procedures will include obtaining an understanding of controls considered to be ‘relevant to the audit’. This involves evaluating the design of the controls and determining whether they have been implemented (“D & I”). Our audit approach consists of the following:

1. Obtain and refresh our understanding of the entity and its environment including the identification of relevant controls
2. Identify risks and any controls that address those risks
3. Carry out 'design and implementation' work on relevant controls
4. If considered necessary, test the operating effectiveness of selected controls
5. Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks

Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Authority, although we will report to management any recommendations on controls that we may have identified during the course of our audit work.

The results of our work in obtaining an understanding of controls will be considered in determining the extent of substantive audit testing required

2. Scope of work and approach (continued)

Scoping of material balances

We perform an assessment of risk which includes considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address the risk of material misstatement.

For the 2013 financial statements, we will determine materiality based on gross expenditure for the year ended 31 March 2013. Planning materiality has been calculated as £93,000 (2012: £78,950) based on expected gross expenditure while final materiality for the year will be based on gross expenditure per the draft accounts for the year ended 31 March 2013. We will report on all unadjusted misstatements greater than £4,650 (2012, £3,948) and other adjustments that are qualitatively material.

Prior year uncorrected misstatements

There were no uncorrected misstatements or disclosure deficiencies identified during the course of our prior year audit.

A risk focussed audit approach allows us to tailor our testing to your Authority, placing greater emphasis on areas that are a greater source of risk and concern for the organisation

2. Scope of work and approach (continued)

Liaison with Internal Audit

The audit team, following an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function, will review the findings of any relevant internal audits on the Authority and adjust the audit approach as is deemed appropriate. Where internal audit identifies specific material deficiencies in the control environment, we will consider adjusting our testing so that any new additional specific audit risks are covered by our work.

Whole of Government Accounts

We will again be required to provide an assurance statement on the Authority's consolidation pack for the purposes of the Whole of Government Accounts. The deadline for submission of the audited consolidation pack is 7 October 2013.

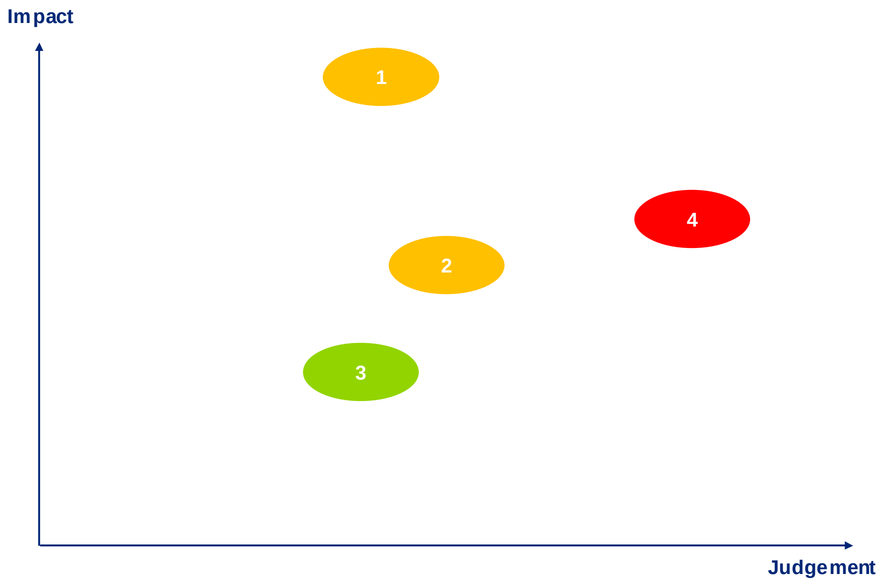
The Audit Commission has expressed its intention again to name bodies where assurance statements are submitted late and/or are qualified.

It is anticipated that, as in the prior year, the Authority will be below the threshold for which a full audit of the WGA pack is required. Therefore we expect to be required to perform similar work to the prior year which consisted of ensuring specific balances are reported correctly including Fixed assets and the pension liability as well as carrying out a review of any validation errors.

3. Significant audit risks and other audit issues

Based upon our initial assessment and following discussion with management, we will concentrate specific effort on the significant audit risks set out below.

We have plotted the key audit risks to show where we believe there is highest level of judgement and impact on the financial statements.



1. Impact of public sector cuts
2. Management override of controls
3. Revenue recognition
4. Revaluation of fixed assets

3. Significant audit risks and other audit issues (cont.)

	Impact of public sector funding cuts	Deloitte response
Impact will be reviewed throughout our audit testing.	The Authority is currently under both financial and resource pressures as a result of the Comprehensive Spending Review which has seen year on year reductions in the main DEFRA grant. This may lead to increased pressures of internal controls and budgeting capabilities.	The impact of the financial and resource pressures on the Authority, and particularly on its internal controls, will be considered during the course of all our audit work.

	Management override of controls	Deloitte response
We will focus on the judgments around the valuation of assets and liabilities, significant unusual transactions and management journals.	International Standards on Auditing (UK & Ireland) require auditors to presume that there is a risk of fraud in relation to management override of controls and to perform specific procedures to address this risk.	We will obtain an understanding of the business rationale for significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given out understanding of the Authority and its environment. Our work will focus on the risk of fraudulent financial reporting. We will review a sample of journal entries and judgemental areas such as accruals, provisions, accounting estimates and unusual transactions.

3. Significant audit risks and other audit issues (cont.)

	Revenue Recognition	Deloitte response
We are required to assume that there is a risk in relation to revenue recognition.	International Standards on Auditing (UK & Ireland) 240, “The auditor’s responsibility to consider fraud in an audit of financial statements”, requires auditors to perform certain audit procedures related specifically to fraud risk, and requires a presumption that revenue recognition is a key audit risk. For the Authority we consider that the specific revenue recognition risk relates to the cut off of grant funding.	We will review the processes in place to ensure that grant income is recognised only to the extent that the Authority has met the grant conditions and therefore it is appropriate to account for the income in 2012/13. We will also perform a review of all grant income which has been accounted for as received in advance to ensure that deferral is appropriate under IFRS.

	Revaluation of fixed assets	Deloitte response
Revaluation poses a risk in relation to the calculation of the fair value of the assets and their disclosure within the accounts.	During the year a revaluation has been undertaken with regard to the fixed assets held by the Authority. There is a risk due to the material size of the balance , the judgemental nature and the accuracy of the revaluation due to the complexity caused by changes in use and the category in which the assets sit and therefore the valuation method that is required to be used under IFRS.	We will use our in-house property specialists to review the valuations that have been undertaken by Newcastle City Council on behalf of the Authority.

3. Significant audit risks and other audit issues (cont.)

Other accounting judgments which have not currently been identified as audit risks are as follows:

Pension Liability

In the current climate the choice of pension inflation, discount, and yield assumptions will be both difficult and judgemental. Small and apparently insignificant changes to these key assumptions can have material consequences for the actuarial assessment of the liability included within the financial statements of the Authority. However, there is no history of error in relation to the accounting for this balance and so we do not consider it to be a significant audit risk.

4. Significant changes introduced by the Code in 2012/13

Topic	
Exit packages	The 2012/13 Code guidance notes provide extended guidance on the disclosure requirements for exit packages. This clarifies that legal, contractual or constructive obligations at year end should be included in the disclosure of exit packages. The guidance notes also recommend that the exit package disclosure is amalgamated with the requirements in relation to the disclosure of termination benefits. As the majority of redundancies were completed in the prior year we do not consider this to be significant audit risk of material misstatement.
Explanatory forward	Whilst the content and style of the Explanatory Foreword have been and still will be left to local judgement, the 2012/13 Code encourages local authorities to take into consideration the requirements of sections 5.2.8 to 5.2.12 of the Government Financial Reporting Manual (FReM) where these requirements are relevant to a local authority. Unlike the FReM, the Code does not include a specific requirement to prepare a sustainability report which would show the Authority's use of finite resources, but neither does it prevent an authority from including such information in its Explanatory Foreword. Specific additional disclosures would include, but are not limited to, a brief history of the authority and its statutory background, an explanation of the going concern basis, details of company directorships and other significant interests held by members, and sickness absence data.

5. Value for money conclusion

The scope of our VFM work is set out in the “Work Programme and Scales of Fees 2012/13 – Local government, housing and community safety” and supporting “The New Approach to VFM Audit” documents issued by the Audit Commission. Consistent with last year, our VFM audit work will include the following:

- review of the Annual Governance Statement (AGS);
- review the results of the work of the Audit Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor’s responsibilities at audited body; and
- undertake other local risk based work as appropriate, or any work mandated by the Audit Commission.

At this time we have not identified any local risk based work, nor are we aware of any additional work mandated by the Commission.

6. Responsibility statement

This report sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to you and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audit bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our report has been prepared on the basis of, and our work carried out in accordance with, the Code and the Statement of Responsibilities.

While our report may include suggestions for improving accounting procedures, internal controls and other aspects of your business arising out of our audit, we emphasise that our consideration of Northumberland National Park Authority's system of internal control is conducted solely for the purpose of our audit having regard to our responsibilities under Auditing Standards and the Code of Audit Practice. We make these suggestions in the context of our audit but they do not in any way modify our audit opinion, which relates to the financial statements as a whole. Equally, we would need to perform a more extensive study if you wanted us to make a comprehensive review for weaknesses in existing systems and present detailed recommendations to improve them.

We view this report as part of our service to you for use, as Members, for corporate governance purposes and it is to you alone that we owe a responsibility to its contents. We accept no duty, responsibility or liability to any other parties as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

If you intend to publish or distribute financial information electronically or in other documents, you are responsible for ensuring that any such publication properly presents the financial information and any report by us thereon, and for the controls over and security of the website. You are also responsible for establishing and controlling the process for electronically distributing accounts and other information.

Deloitte LLP
Chartered Accountants
Newcastle upon Tyne
18 June 2013

Appendix 1: Independence and fees

As part of our obligations under International Standards on Auditing (UK & Ireland) , we are required to report to you on the matters listed below:

Independence confirmation	We confirm we are independent of the Authority and will reconfirm our independence and objectivity to the Authority for the year ending 31 March 2013 in our final report to the Authority.
Fees	Details of the audit services fees proposed for the period have been presented separately in this appendix below.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of the engagement lead and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Appendix 1: Independence and fees (continued)

The table below details our proposed audit fees and non audit fees for the year ending 31 March 2013:

	Current year £	Prior year £
Audit of Authority under Audit Commission Code of Audit Practice		
Audit Commission scale fee (Note 1)	11,568	19,280

Notes:

1. The 2012/13 scale fee set by the Audit Commission reflects a reduction of 40% on 2011-12 fees. The fee excludes:
   - any work in relation to providing any specific accounting or other views. Given the uncertainty of timing and input required, we will agree the scope of work and associated fee with you when you request the opinion;
   - any additional work required to address questions and objections raised by local government electors which, due to uncertainty of timing and resource required, will be agreed separately.
   - any work requested by you that we may agree to undertake. Each piece of work will be separately negotiated and a detailed project specification agreed with you; and
   - value added tax which will be charged at the prevailing rate.

   We have also assumed that:
   - Internal Audit undertakes appropriate work on all systems, and good quality working papers and records will be provided by the agreed start date for the interim audit visit;
   - good quality working papers and records will be provided to support the financial statements by the agreed start date for the final audit visit; and
   - good quality working papers will be available by the deadline for submission of the WGA return to auditors to support the WGA return.

Appendix 2: Fraud considerations

Characteristics	• Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
	• Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
	• We are aware the management has the following processes in place in relation to the prevention and detection of fraud:
	    • Internal audit
	    • Policies covering hospitality, gifts and inducements and whistleblowing
	    • Standards of conduct for members and officers.

Responsibilities	• The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. • As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
Process and documentation	• We will make the enquiries between the date of this report and our final audit visit. Our preferred approach is to schedule a short meeting or phone call to discuss each person's perception of the risk and occurrence of fraud and to facilitate this discussion with a short checklist of consideration points which we would ask participants to review, consider and respond to before our meeting.
Concerns	• As set out in the significant risks and accounting judgements section, we have identified the risk of fraud in revenue recognition and management override of controls as key audit risks for your organisation. • No other concerns have been identified from whistle blowing procedures or by management about quality of management in any service area.

Appendix 2: Fraud considerations (continued)

We will make the following inquiries regarding fraud:

Management	Internal Audit	Those charged with governance
Management’s assessment of the risk that the financial statements may be materially misstated due to fraud including the nature, extent and frequency of such assessments Management’s process for identifying and responding to the risks of fraud in the entity Management’s communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity Management’s communication, if any, to employees regarding its views on business practices and ethical behaviour Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity	Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud and status reports on fraud cases during 2012/13	How those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity

Appendix 2: Fraud considerations (continued)

We will ask for you and management to make the following representations towards the end of the audit process:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  (i) management;
  (ii) employees who have significant roles in internal control; or
  (iii) others where the fraud could have a material effect on the financial statements.

- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 3: Audit team

We set out below our audit engagement team. We manage our audit on a basis that is consistent with prior years and draws on the expertise of our public sector group.

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Audit Field Team

Appendix 3: Communication timetable

Set out below is the approximate expected timing of our reporting and communication with the Authority:

Pre-Planning Activities	Planning fieldwork	Year end fieldwork	Reporting	Post reporting activities
Meetings with management to: • confirm risk assessment and management response; and • agree on key judgemental accounting issues. Early discussion on areas to improve financial statements.	Review of results for the year to date. Complete audit work to refresh our understanding of the Authority and its systems, processes and internal controls. Issue the audit plan to the finance team and the Head of Corporate Services.	Complete audit testing as set out in this Audit Plan Complete testing on the annual report and the whole of government accounts return. Finalisation of work in support of Value for Money conclusion. Discuss and agree conclusions with the finance team and present findings to the Head of Corporate Services.	Present findings, final report and the audit opinions to the Authority. Sign the audit opinion. Report to the National Audit Office on the Whole of Government Accounts return.	Hold a lessons learned meeting with the finance team. Seek feedback on the audit process stakeholders e.g. the Authority, finance team etc. Issue of annual audit letter.
April 2013	**April - June 2013**	**June – August 2013**	**September 2013**	**October 2013 onwards**

Ongoing communication and feedback

Appendix 4: Proposed changes for the 2013/14 accounts

Topic	
Changes proposed by the 2013/14 Code	**IFRS 13: Fair value accounting** The 2013/14 Code will introduce the requirements of IFRS 13 *Fair Value Measurement* as adapted for public sector circumstances. Non-financial non-profit generating assets are taken out of the scope of this standard and will be carried at a 'public sector valuation', which is presumed to reflect the assets' service potential. As a result of the adaption the Authority would not be required to measure property, plant and equipment in accordance with IFRS 13; however in order to meet the disclosure requirements of the standard the Code makes it necessary for authorities to consider which level of the fair value hierarchy the valuation technique they have used will apply. The Authority will need to ensure that the valuer is made aware of the introduction of IFRS 13 and the Code's adaption of it. Where the change is expected to be material to the accounts, the Authority will need to disclose in its 2012/13 financial statements: • the title of the new or amended standard; • the nature of the change of accounting policy; • the date at which the change of accounting policy is required; and • a discussion of the impact that initial application of the IFRS is expected to have on the financial statements. **Other amendments** Other changes include: • amendments to the Comprehensive Income and Expenditure Statement as a result of the June 2011 amendments to IAS 1 *Presentation of Financial Statements*; • amendments to IAS 19 *Employee Benefits* including changes to definitions and terminology, changes to the recognition requirements and clarification of the disclosure requirements; • a number of clarifications and augmentations of the provision of the Code as a result of the CIPFA/LASAAC IFRS post implementation review; • amendments to IAS 12 *Income Taxes*; • new definitions and clarification for service concession arrangements that are assets under construction or intangible assets; • clarification on the treatment of overdrafts; and • amendments to IFRS 7 *Financial Instruments: Disclosures* requiring information that will enable users to evaluate the potential effect of netting arrangements.