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Northumberland National Park

Northumberland National Park Authority

Planning Report in relation to the audit for the year ended 31 March 2015

the Distinctive audit

Members
Northumberland National Park Authority
Eastburn
South Park
Hexham
Northumberland
NE46 1BS

29 May 2015

Dear Sirs

We have pleasure in setting out in this document our planning report to the Members of Northumberland National Park Authority (“the Authority”) for the year ending 31 March 2015, for discussion at the meeting scheduled for 17 June 2015. This report covers the principal matters that we will focus on during our audit.

In summary:

- this report sets out the scope of our work including the significant audit risks and how we plan to address them; and
- there are a number of areas where significant management judgement will be required which we draw to your attention in our report and which you should consider carefully.

We would like to take this opportunity to thank management for their assistance and co-operation during the course of our planning work and we look forward to working with the Authority in the coming months.

Deloitte LLP

Deloitte LLP

Chartered Accountants

Contents

"I am delighted to present this planning report for the 2014/15 audit of Northumberland National Park Authority. This report sets out our audit approach and the more significant areas where we will focus our attention this year."

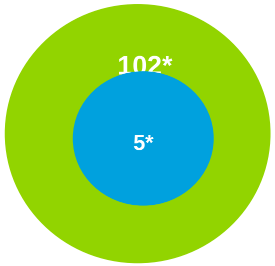
Celia Craig, Engagement Lead

The Big Picture

Key developments in your business

- Northumberland National Park Authority continues to develop its proposals and funding plans for the Sill (a new landscape discovery centre in partnership with YHA (Youth Hostel Association)).
- Phase 1 of the proposal in relation to the design of the new Centre has been completed and in February 2015 the Heritage Lottery Fund (HLF) announced an offer of £7.7m of grant aid for the Sill. Phase 2 is expected to commence in late 2015 with a total cost to completion of £14.2m. After taking account of funding from the HLF, YHA and Authority, the remaining funding gap is estimated to be £2.1m.
- The Authority is developing a range of initiatives to secure the funding. One of these initiatives was the establishment of a charitable body to raise and receive funds on behalf of the Authority and ensure their effective distribution to the Authority for specific projects, such as the Sill. The "Northumberland National Park Foundation" has recently succeeded in achieving charitable status.
- A combined loan and grant of £2m from Northumberland County Council has also recently been accepted in principle by the Authority to fund the capital elements of the Sill project.
- As at quarter 3, the Authority was forecasting a £84k underspend against budget, largely driven by £50k underspend due to delays in the Housesteads expansion, £20k underspend on repairs and maintenance and £55k underspend on staff, offset by an overall project overspend of £51k.

Materiality and the Clearly Trivial Threshold (£000)



* Prior year materiality was calculated as £102k. We will report all misstatements over the clearly trivial threshold which was £5k in the prior year. Materiality for 2014/15 will be updated when the draft accounts are received in June.

Significant audit risks

- Revenue recognition
- Management override of controls

These risks are discussed in further detail in the Significant Audit Risks section of this report (page 9).

We have also identified additional local risk based work in relation to the Sill Project (page 12)

Our audit quality promise

The quality of our audit delivery is of great importance to us. In order to ensure we deliver an excellent service to you, we have developed our Audit Quality Promise. Key aspects of this delivery are:

How we communicate with you throughout the year	**What insight we bring around the quality of your control environment, systems and audit risk areas**	**How we ensure that our team is delivering the best quality audit at every level**

This section sets out our commitments to management, officers and members in these areas and we will actively seek feedback on how we have performed against them.

From discussions with you and our experience with other local authorities, we know that you value an integrated approach to all aspects of our audit and our Audit Quality Promise takes this into account.

The key individuals that form part of our audit team for 2014/15 are consistent with the team in previous years, with notable continuity. We have supplemented them as necessary with skilled, experienced and knowledgeable individuals to ensure timely and effective delivery of our audit.

Transition to the new auditors for 2015/16
2014/15 is the final year of our appointment as external auditors to the Authority. The Audit Commission has an established protocol in place for the handover of audits between auditors. We will work with Ernst Young LLP, the Authority's new auditors from 2015/16, within the guidance set out in the protocol to ensure as smooth a handover as possible.

Closure of the Audit Commission
The Audit Commission ceased to exist on 31 March 2015. An independent company created by the Local Government Association (Public Sector Audit Appointments Limited) is now responsible for overseeing the external audit contracts with audit firms from 1 April 2015 until December 2017 or up to 2020. It will manage the contracts and exercise statutory powers to appoint auditors, set and determine fees, and to make arrangements for housing benefit subsidy certification. The National Audit Office is now responsible for issuing guidance to auditors and has confirmed that the Commission's guidance for 2014/15 audits remains in place and is unchanged. We will ensure we comply with that guidance in the delivery of the audit.

Our audit quality promise

Communication

We believe that regular face to face communication is essential to delivering quality and insight through our audit. We have set out below our planned communications schedule for both the audit period and throughout the year.

Year round communication

We will be in regular contact with Stuart Evans, Hazel Fitzsimmons and Gordon Allan to ensure we remain up to date with the developing issues at the Authority through the year and will discuss, in advance, any papers we wish to present to a meeting of the Committee. Senior members of the audit team will attend the September Authority Meeting as scheduled by the Authority.

In these meetings we will discuss the latest Authority developments, and in-year performance. We will also provide any updates on our findings to date, and any relevant regulatory/ technical updates.

We will make ourselves available throughout the year for ongoing discussions as necessary.

During the main audit period

During the audit period we will work closely with Hazel Fitzsimmons, Gordon Allan and the finance team and ensure we summarise our findings and discuss any emerging issues on the financial statement audit. We will:

- work with management and key personnel as part of our work relating to the VFM conclusion; and
- hold a close meeting with management to discuss the contents of our report to the September Authority meeting.

Open feedback process

We will carry out debrief meetings with Hazel Fitzsimmons and Gordon Allan to discuss how we have delivered against the commitments on both sides, as set out in this document, and any other aspects of our delivery.

We will:

- respond to this feedback with agreed actions and timescales; and
- seek direct feedback through regular meetings during the year.

Responding to queries and requests

We appreciate that you require timely responses to any queries and requests throughout the year. We will:

- always endeavour to respond to queries and requests within 24 hours and to give definitive timescales for delivery or their resolution;
- proactively set up meetings to discuss any technical accounting or regulatory developments, which could have a significant impact on the Authority, as soon as we become aware of any issue; and
- make ourselves available to discuss issues as they arise, in advance of the year end to smooth the closedown and accounts production processes.

Our audit quality promise

Bringing you insight

Sharing knowledge of sector developments. For example:

- We have attached a summary of our research into the state of local public services (see Appendix 5).
- We will discuss other relevant Deloitte publications with senior staff to raise awareness of sector issues.

Feedback comments from our VFM conclusion work and obtain management input on any findings.

- Share emerging issues with officers.
- Open discussion over changes in the regulatory environment.

Risk-based journal analysis covering period end postings.

Early discussion of changes to the Code of Practice on Local Authority Accounting Code (“the CIPFA Code”), their expected impact on the Authority and proposed response.

Open and early communication with Hazel Fitzsimmons and Gordon Allan to discuss audit requirements and Authority provision of information to improve efficiency.

Changes to your Statement of Accounts

New reporting requirements

We welcome this opportunity to set out for the Committee a summary of the latest developments in financial reporting which will impact this year end.

	Change in Code of Practice on Local Authority Accounting requirements	Impact on the Authority
Presentation of Financial Statements	The Code now incorporates CIPFA's updated How to Tell the Story, which is intended to help CFOs and other senior staff present the financial statements to members and other key stakeholders, by explaining how the formats can be used to convey key information in these areas, and covers the main financial statements. The Code incorporates amendments to IAS1 in respect of the new requirements for specific comparative information and clarification regarding the complete list of financial statements.	The Authority should consider the guidance within the Code when preparing the Statement of Accounts to be ensure financial information is best presented to the users of the accounts. The Authority should consider the changes in the Code when preparing the statement of accounts.
Fixed Assets	Clarification guidance has been provided in respect of a number of areas including frequency of valuations for PPE and impairment of assets.	The Authority should consider updated guidance in relation to fixed assets and impairment of assets.

Scope of work and approach

Executive summary

Audit scope	We will conduct our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISA (UK and Ireland)”) as adopted by the UK Auditing Practices Board (“APB”) and the Audit Commission’s Code of Audit Practice. The audit opinion we intend to issue will reflect the financial reporting framework required by local authorities and as set out in the CIPFA Code, which is based on International Financial Reporting Standards (“IFRS”). The audit will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities we consider necessary. We will plan and perform our audit to be able to provide reasonable assurance over the opinion that is to be provided. There are no significant changes in respect of the scope of our work in relation to this area of responsibility.
Materiality and scoping of material balances, classes of transactions and disclosures	We will use gross expenditure as the benchmark for our materiality assessment as, in our view, this figure represents the most appropriate measure of the scale of the organisation and best reflects the context within which any misstatements should be considered. For the 2014/15 audit, we will finalise materiality based upon gross expenditure which we will receive the 2014/15 statement of accounts in June. In the prior year materiality was £102k. We will report to the Committee on all unadjusted misstatements greater than our clearly trivial threshold (2013/14: £5k) and other adjustments that are qualitatively material. The extent of our procedures is not based on materiality alone but also on local considerations of the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements. We perform an assessment of risk which includes considering the size, composition and qualitative factors related to account balances, classes of transactions and disclosure. This enables us to determine the scope of further audit procedures to address the risk of material misstatement. We will report to you any significant findings from our scoping work.
Controls approach	As set out in the "Briefing on audit matters" (see Appendix 6 of 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”). The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Scope of work and approach

Executive summary

Prior year uncorrected misstatements including disclosure misstatements	We take this opportunity to remind you of the misstatements identified in the prior period. All misstatements identified were corrected by management.
Significant audit risks	The significant audit risks which we have identified as part of our overall audit strategy are: 1. Revenue recognition – recognition of grant income; and 2. Management override of controls. The risks have been discussed in detail in the following section of this report. Should we identify any additional areas to draw to your attention following the planning phase of the audit, we will report these to the Authority.
Value For Money	Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This is known as the “Value for Money (“VFM”) conclusion”. We have identified additional local risk based work in relation to the Sill project.
Independence, quality and fees	Deloitte has developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in the ‘Independence policies and procedures’ section of our ‘Briefing on audit matters’ document, included in Appendix 6 of this report. We confirm we are independent of the Authority and will reconfirm our independence and objectivity to the Committee for the year ending 31 March 2015 in our final report. The audit fee has been set by the Audit Commission at £11,568 (2013/14: £11,568).

Scope of work and approach

Executive summary

Liaison with internal audit	The audit team, consistent with previous years, will leverage off the work performed by internal audit wherever possible to allow efficiencies and limit any duplication of work. We will assess the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function. The audit team will review the findings of internal audit and adjust the audit approach as is deemed appropriate. This normally takes a number of forms: • assessment of the control environment; • discussion of the work plan for internal audit; and • where internal audit identifies specific material deficiencies in the control environment, we consider adjusting our testing so that the audit risk is covered by our work.
Assurance report on the Whole of Government Accounts return	WGA are commercial-style accounts covering the whole of the public sector and include some 1,700 separate bodies. We expect to perform limited procedures on the Authority's consolidation pack and will confirm if any additional procedures are necessary. This is in line with the requirements of previous years.
Annual Governance Statement	We are required to 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 procedures. We will also review reports from regulatory bodies and any related action plans developed by the Authority.

Significant audit risks

This section sets out our comments regarding the significant audit risks identified. We explain the nature of the risk itself, how these risks will be addressed by our audit work and any related presentational and / or disclosure matters within the financial statements.

Risk assessment is at the heart of our integrated audit approach as it is only with proper identification of the most significant audit risks, that we are able to provide the highest quality assurance in the most efficient and effective manner.

1. Revenue recognition	
Under International Standards on Auditing (UK & Ireland), there is a presumed risk of fraud around 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 recognition of grant income. Specifically, grant income is expected to be credited to the Comprehensive Income & Expenditure Statement in line with the terms and conditions of the related grant agreement. 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 2014/15, and perform detailed testing on a sample of grants recognised as income in the year. We will also perform detailed testing on a sample of grant income which has been accounted for as received in advance to ensure that deferral is appropriate under IFRS.

Significant audit risks

2. Management override of controls	
Under International Standards on Auditing (UK & Ireland) there is a presumed risk of management override of controls	In accordance with ISA (UK & Ireland) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of this risk will vary from entity to entity, the risk is nevertheless present in all entities and therefore a presumed risk for all our audits. For the Authority, the risks are deemed to arise with regards to the following: • the financial reporting process; • the controls over journal entries and other adjustments posted; and • significant accounting estimates, e.g. provisions and income in advance. As part of our audit planning in relation to the following areas, we will evaluate the design of controls and determine whether they have been implemented. Furthermore, we plan to perform the following audit procedures that directly address this risk: • testing the appropriateness of our risk-based sample of journal entries recorded in the general ledger and other adjustments made in the preparation of financial reporting; • review of accounting estimates for biases that could result in material misstatements due to fraud; • obtaining an understanding of the business rationale of any significant transactions that we become aware of that are outside the normal course of business for the Authority, or that otherwise appear to be unusual given our understanding of the Authority and its environment; and • considering the overall control environment and 'tone at the top'. We will report to the Committee on any reportable misstatements and/or control insights as applicable.

Areas of audit interest

These are other accounting judgements or areas which may impact the financial statements which we have not identified as audit risks.

1. Pension liability	
The pension liability is a significant balance for the Authority.	Pensions accounting is determined by International Accounting Standard 19 *Employee Benefits*. In the ongoing financial 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. For the purposes of the 2014/15 audit, we will: • review and update our understanding over the management process to determine pension assumptions; • utilise our in-house pension and actuarial specialists to review these assumptions for reasonableness based upon prevailing market factors; and • review the pension disclosures for compliance with applicable accounting standards. We will report to the Authority on any reportable misstatements and/or control insights as applicable.

Value for Money conclusion

Our work will focus on the extent to which the Authority has proper arrangements in place to secure value for money

Scope

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This is known as the “Value for Money (“VFM”) conclusion”.

Specified criteria for VFM conclusion
The organisation has proper arrangements in place for securing financial resilience.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Approach to our work

Consistent with last year and guidance issued by the Audit Commission as confirmed by the National Audit Office, our VFM audit work will include the following:

- review of the Annual Governance Statement (AGS);
- review of 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
- undertaking other local risk based work as appropriate, or any work mandated by the Audit Commission.

Preliminary assessment – Local risk based work to be performed in relation to the Sill project

Our preliminary assessment is that there is a significant risk in relation to the Sill for our VFM responsibilities which require local work to be carried out. In addition we are not aware of any additional work mandated by the Audit Commission.

The Sill

The Sill is a significant project to develop a Landscape Discovery Centre at Once Brewed. In February 2015, the Authority were successful in securing a £7.75m grant from the Heritage Lottery Fund. However a funding gap of £2.1m remains to complete the project. The Authority is currently in the process of raising these funds through fundraising and grant applications with other organisations. In addition, the Authority anticipates that through the recent establishment of a Charitable Trust they will access greater funding opportunities to close this gap. The contract for the construction of the project will be signed during the summer. If the funding gap remains and the Authority contractually commits to the construction phase then this could raise challenges in relation to the working capital requirements of the Authority and consequently generate a risk to the Authority’s financial standing. For the purposes of the 2014/15 audit, we will keep up to date on progress on the Sill project, including the confirmed funding arrangements in place. We will seek to gain an understanding of the risk appraisal process in relation to the financial challenges of the project and determine how future assurance over the sustainability of the project and its impact on the Authority has been assessed.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

Responsibility Statement

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 audited bodies by summarising where, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body begin and end, and what is expected of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do.

Our audit plan has been prepared on the basis of, and our audit work carried out in accordance with the Code and the Statement of Responsibilities, copies of which have been provided to the Authority by the Audit Commission.

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.

Other relevant communications

- This report should be read alongside the supplementary “Briefing on audit matters” circulated with this planning report in Appendix 6.
- Our Audit Quality Promise provides the details of additional procedures we will perform alongside the audit of the financial statements.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Chartered Accountants

Newcastle

May 2015

Appendix 1: Independence and fees

Confirming our independence

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 Committee for the year ending 31 March 2015 in our final report to the Authority.

Fees

The total 2014/15 fee agrees to the scale fee set by the Audit Commission. The scale of fees set by the Audit Commission for the Authority can be found at: http://www.audit-commission.gov.uk/audit-regime/audit-fees/201415-work-programme-and-scales-of-fees/

	Scale Fee 2014/15 £	Scale Fee 2013/14 £
Financial statements	9,908	9,908
VFM conclusion	860	860
WGA	860	860
Total audit fee	**11,568**	**11,568**
Certification of claims and returns	-	-

Non-audit services

We have not provided any non-audit services to the Authority in the 2014/15 financial year.

Appendix 2: Fraud: responsibilities and representations

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

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.

Responsibilities

Your responsibilities	Our 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.	• We are required to obtain representations from the Authority regarding internal controls, assessment of risk and any known or suspected fraud or misstatement. • 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. • As set out in our significant audit risks section earlier we have identified the risk of fraud in revenue recognition and management override of controls as key audit risks for the Authority.

Appendix 2: Fraud: responsibilities and representations

We make enquiries of Management, internal audit and the Chair of the Authority regarding fraud

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 Authority. • Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the Authority. • 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 Authority, and to obtain its views about the risks of fraud.	• How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Authority 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 Authority.

We will ask for the following to be stated in the representation letter signed on behalf of the Authority:

- 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 are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:

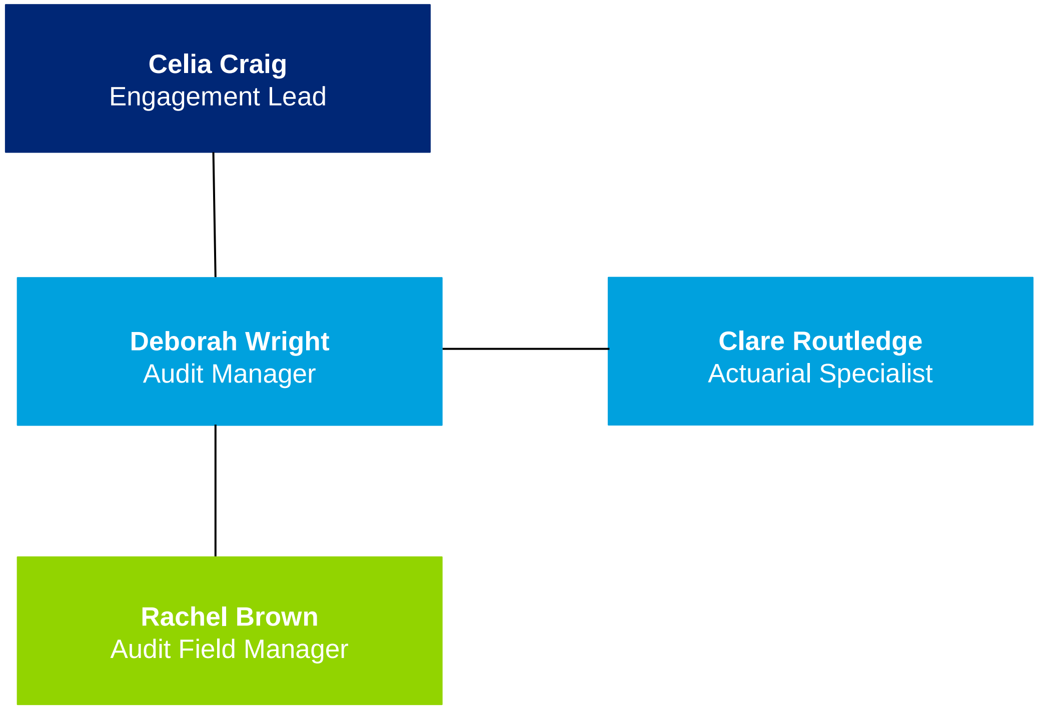
  (i) management;

  (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: Your audit team

A senior team, with continuity from prior years to perform audit work and provide insight and value to the Authority. Our team is selected from our group of public sector specialists



Appendix 4: Timetable

Set out below is the approximate expected timing of our reporting and communication with the Authority and its members.

Planning

Meetings with management to:

- confirm risk assessment and management response; and
- agree on key judgemental accounting issues.

Discussion of the audit plan with management and circulated to members at the June Authority Meeting.

March - May 2015

Year end fieldwork

Document and test design and implementation of key internal controls

Update understanding of systems, controls and developments in the business

Performance of work in support of VFM conclusion

Performance of substantive testing procedures

Review of Statement of Accounts

Audit close meeting with management

Performance of work in support of WGA opinion

June - July 2015

Reporting

Issuance of:

- Audit report and opinion
- VFM conclusion
- WGA return
- Final ISA 260 report

August - September 2015

Post reporting activities

Audit feedback meeting

September - October 2015

Ongoing communication and feedback

Appendix 5: Future developments

We summarise the outcome of our research which provides further context for our audit

During the spring and summer of 2014, Deloitte conducted detailed research to answer a simple question: what is the state of the UK state? As part of the research, we commissioned IPSOS MORI to capture the attitudes of people that run local public services. The results provide a snapshot of local services during a period of profound change. We have summarised the key messages in relation to local public services below.

Pride and Pragmatism

Faced with unprecedented budget reductions, public sector organisations have adapted significantly since 2010. Many Executives confirmed they had managed to maintain standards in service delivery and in some cases make improvements.

Interviewees told us the most common changes in recent years included cutting headcount numbers, reducing lower priority services and collaborating more effectively with other sectors.

A significant number spoke about pushing accountability down, which they felt improved efficiency but made management roles more challenging.

Risk uncertainty and crises

A number of executives expressed concerns over the ability of public sector services to cope with future austerity measures.

Most recognised that the cuts to come would be more challenging that those already achieved and that the changes they expect to make will have increasingly profound implications for their organisations.

Many interviewees also spoke about increased demand for services due to cuts in other areas of public sector including welfare reform. A significant number also commented that local politics or economics presented additional barriers to initiatives for dealing with budget cuts.

Constructive political narrative

Our research suggests that those running our public services believe that national politicians could do more to lead a national debate on what citizens should expect from public services and local politicians could do more to engage citizens in that they should expect locally. There is a current perception that politicians often criticise public services but rarely help citizens appreciate that spending reductions may lead to reduced levels of service. As a result, citizens have unrealistic expectations about state provision. In addition, public sector employees feel exposed and unsupported by political leadership, exacerbating recruitment and retention challenges.

Appendix 5: Future developments

We summarise the outcome of our research which provides further context for our audit

Talent Management

Our interviews found that people issues have begun to preoccupy many public sector Chief Executives. They told us about difficulties in attracting, recruiting and retaining people for a range of key jobs.

Some interviewees described specific recruitment difficulties for nurses, teachers, social workers and public health analysts. The most-often cited causes were that the area struggles to attract people, that some professionals are in limited supply and the public sector cannot compete with the private sector on pay and conditions.

Many Chief Executives told us that workforce reductions had lowered staff churn and they were beginning to feel the effects of not having new staff to bring new perspectives and ideas. Others commented that morale had been affected by cuts and continued criticism of the public sector. A further specific issue raised by many interviewees was the need for more training in change-management for middle managers.

The three most commonly-cited factors influencing retention were stress, weak career progression opportunities and pay and conditions.

Technology, estates and ways of working

Our interviews suggest that attitudes to technology, ways of working and estate management differ across local public services.

Most executives felt their organisations had started to make progress with technology and that technology which enabled front line delivery, such as mobile working for social workers tends to have been prioritised. Budgets, inflexible IT contracts and concerns over data security were cited as barriers to effective use of technology.

Some said they were reticent to introduce flexible working patterns while others recognised they could have a role to play in attracting and retaining talented staff.

A number of chief executives felt they had reduced their organisation’s estate as far as they could, but others felt there was more they could do. Typical activities undertaken in recent years include the closure of unviable schools, consolidation of office space and sale of unused buildings. Some told us that the potential for cost reductions were more limited in their areas, where land and property is less expensive. Political issues were also cited as barriers to change, noting that closing police stations and hospitals is invariably unpopular.

Overall

The full report, *The State of the State 2014-15* is available on our website at www.deloitte.co.uk. We would be happy to discuss the report in more detail, including how the major themes identified affect the Council.

Appendix 6: Briefing on Audit Matters

Approach and scope of the audit

Primary audit objectives	We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Financial Reporting Council (“FRC”) and the Code of Audit Practice as established by the Audit Commission. Our statutory audit objectives are: • to express an opinion in true and fair view terms to the members on the financial statements; • to express an opinion as to whether the accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting; • to express an opinion as to whether the entity has put in place appropriate systems and processes to secure value for money in its use of resources; and • to express an opinion as to whether the Annual Governance Statement, is consistent with the financial statements and our knowledge of the Authority.
Other reporting objectives	Our reporting objectives are to: • present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and • provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.
Materiality	The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements. "Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms: *"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."* We determine materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

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Approach and scope of the audit

Materiality (continued)	We determine materiality to: • determine the nature, timing and extent of audit procedures; and • evaluate the effect of misstatements. The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.
Uncorrected misstatements	In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial. ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Lead, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate. We will consider identified misstatements in qualitative as well as quantitative terms.
Audit methodology	Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value for management and the Authority whilst minimising a "box ticking" approach. Our audit methodology is designed to give officers and members the confidence that they deserve. For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those: • where we plan to obtain assurance through the testing of operating effectiveness; • relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted and the risk of management override of controls); • where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and • to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures.

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Approach and scope of the audit

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
ISQC 1	Quality control for firms that perform audits and review of financial statements, and other assurance and related services engagements
240	The auditor's responsibilities relating to fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
265	Communicating deficiencies in internal control to those charged with governance and management
450	Evaluation of misstatements identified during the audit
505	External confirmations
510	Initial audit engagements – opening balances
550	Related parties
560	Subsequent events
570	Going concern
600	Special considerations – audits of group financial statements (including the work of component auditors)
705	Modifications to the opinion in the independent auditor's report
706	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
710	Comparative information – corresponding figures and comparative financial statements
720	Section A: The auditor's responsibilities relating to other information in documents containing audited financial statements

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Independence policies and procedures

Safeguards and procedures	
	• Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit. • Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained. • We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable. • There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment. • Periodic rotation takes place of the audit engagement lead, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements. • In accordance with the Ethical Standards issued by the Auditing Practices Board (“APB”), there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation. • In the UK, statutory oversight and regulation of auditors is carried out by the FRC. The Firm’s policies and procedures are subject to external monitoring by both the Audit Quality Review Team (AQRT, formerly known as the Audit Inspection Unit), which is part of the FRC’s Conduct Division, and the ICAEW’s Quality Assurance Department (QAD). The AQRT is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW’s Audit Registration Committee.

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Independence policies and procedures

Independence policies	Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies. Amongst other things, these policies: • state that no Deloitte partner (or any immediate family member) is allowed to hold a financial interest in any of our UK audited entities; • require that professional staff may not work on assignments if they (or any immediate family member) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity; • state that no person in a position to influence the conduct and outcome of the audit (or any immediate family member) should enter into business relationships with UK audited entities or their affiliates; • prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and • provide safeguards against potential conflicts of interest.
Remuneration and evaluation policies	Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.
APB Ethical Standards	The APB issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach. The five standards cover: • maintaining integrity, objectivity and independence; • financial, business, employment and personal relationships between auditors and their audited entities; • long association of audit partners and other audit team members with audit engagements; • audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and • non-audit services provided to audited entities. Our policies and procedures comply with these standards.