RAPC 439-21
Annex 1

# New Forest National Park Authority

## Annual Audit Letter for the year ended 31 March 2020

December 2020

Building a better working world

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This 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 (updated April 2018)' 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 Audit Results Report is prepared in the context of the Statement of responsibilities of the Engagement. 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 Hywel Ball, 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.

Section 1

# Executive Summary

# Executive Summary

We are required to issue an annual audit letter to the New Forest National Park Authority (the Authority) following completion of our audit procedures for the year ended 31 March 2020. Covid-19 had an impact on a number of aspects of our 2019/20 audit. We set out these key impacts below:

| Area of impact | Commentary |
| --- | --- |
| **Impact on the delivery of the audit** | |
| ► Changes to reporting timescales | As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. We worked with the Authority to deliver our audit in line with the revised reporting timescale. |
| **Impact on our risk assessment** | |
| ► Disclosures on Going Concern | Financial plans for 2020/21 and medium term financial plans will need reassessment for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance. |
| ► Events after the balance sheet date | We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may occur and need to be disclosed. The amount of detail required in the disclosure would need to reflect the specific circumstances arising. |
| **Impact on the scope of our audit** | |
| ► Information Produced by the Entity (IPE) | We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:<br>• Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and<br>• Agree IPE to scanned documents or other system screenshots. |
| ► Consultation requirements | Additional EY consultation requirements concerning the impact on auditor reports. The changes to audit risks and audit approach changed the level of work we needed to perform. |

# Executive Summary (cont'd)

The tables below set out the results and conclusions on the significant areas of the audit process.

| Area of Work | Conclusion |
| --- | --- |
| **Opinion on the Authority's:** | |
| ► Financial statements | Unqualified – the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2020 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 |
| --- | --- |
| **Reports by exception:** | |
| ► Consistency of Governance Statement | The 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. |

# Executive Summary (cont’d)

| Area of Work | Conclusion |
|---|---|
| Reporting to the National Audit Office (NAO) on our review of the Authority’s Whole of Government Accounts return (WGA). | The Authority is below the specified audit threshold of £500m. 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 issued on 12 October 2020 |
| 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 30 November 2020 |

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

Kevin Suter
Associate Partner
For and on behalf of Ernst & Young LLP

Section 2

# Purpose and Responsibilities

# 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.<br><br>We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 15 October 2020 Authority Meeting, 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 2019/20 audit work has been undertaken in accordance with the Audit Plan that we issued on 15 January 2020 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2019/20 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 £500mn. 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 (AGS). In the AGS, 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.

Section 3

# Financial Statement Audit

# 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 other guidance issued by the National Audit Office and issued an unqualified audit report on 30 November 2020.

Our detailed findings were reported to the 15 October 2020 Authority meeting.

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

| Significant Risk | Conclusion |
| --- | --- |
| Misstatements due to fraud or error<br><br>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.<br><br>As identified in ISA (UK) 240, 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. We identify and respond to this fraud risk on every audit engagement. | We performed the following:<br><br>▪ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;<br>▪ assessed accounting estimates for evidence of management bias, and<br>▪ evaluated the business rationale for significant unusual transactions.<br><br>In addition, we:<br><br>▪ inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding the oversight given by those charged with governance of management's processes over fraud, and<br>▪ we have considered the effectiveness of management's controls designed to address the risk of fraud.<br><br>We did not identify any material weaknesses in controls or evidence of material management override.<br><br>We did not identify any instances of inappropriate judgements being applied.<br><br>We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.<br><br>We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements. |

# Financial Statement Audit (cont’d)

The key issues identified as part of our audit were as follows: (cont’d)

| Significant Risk | Conclusion |
|---|---|
| Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure<br><br>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.<br><br>From our risk assessment, we have assessed that the risk manifest itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund. | We performed the following:<br><br>▪ We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.<br><br>▪ We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items<br><br>▪ When performing journals testing, we analysed entries that would be classed as high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS.<br><br>We have not identified any material weaknesses in controls or evidence of material management override.<br><br>PPE additions met the capitalisation requirements under IAS16 and REFCUS items were appropriately classified<br><br>We have not identified any instances of inappropriate judgements being applied.<br><br>We did not identify any other transactions through our test of journals or our other audit procedures which appeared unusual or outside the Authority‘s normal course of business. |

# Financial Statement Audit (cont’d)

| Other areas of audit focus | Conclusion |
|---|---|
| Going Concern<br>Covid-19 has created a number of financial pressures. There is currently not a clear statement of financial support from Defra that extends to 2021/22.<br><br>As per the CIPFA Code 3.4.2.23 Other bodies that prepare financial statements in accordance with the Code that may be discontinued without statutory prescription shall follow the going concern reporting requirements in IAS 1.<br><br>As such, we are obliged to report on such matters within the section of our audit report ‘Conclusions relating to Going Concern’.<br><br>To do this, the auditor must review management’s assessment of the going concern basis applying IAS1 Presentation of Financial Statements. | We sought a documented and detailed consideration to support management’s assertion regarding the going concern basis.<br><br>Our audit procedures to review these included consideration of:<br>- Current and developing environment;<br>- Liquidity (operational and funding);<br>- Mitigating factors;<br>- Management information and forecasting; and<br>- Sensitivities and stress testing.<br><br>We received management’s Going Concern assessment along with a cashflow forecast spanning at least 12 months from the approval of the accounts. We confirm their conclusion that the Authority remains a Going Concern is based on reasonable and supportable assumptions.<br><br>We are satisfied that the Authority’s Going Concern Disclosure is sufficiently detailed, transparent and accurately reflects managements underlying Going Concern assessment. |

# Financial Statement Audit (cont'd)

| Other areas of audit focus | Conclusion |
|---|---|
| Property, Plant and Equipment valuation | The Authority had not valued its PPE as at the balance sheet date, so we undertook procedures to ensure it was still materially correctly stated.<br><br>We noted that although a revaluation has not occurred in year, the Bransgore PPE asset was impaired following updated information from the HCC valuers.<br><br>As at 31 March 2017 the Authority had the asset valued by a professional valuer at Hampshire County Council Property Services (Caroline Egan, MRICS) as at 31 March 2017 on an 'EUV-SH' (Existing Use Value – Social Housing) basis at £315,000 - £45,000 for the land and £270,000 for the buildings.<br><br>Following discussion with the valuers, it was confirmed that the £270,000 was in fact for both the land and buildings, with the £45,000 being a comment on what the land was worth within the total value. Therefore, a corrective reduction of £45,000 has been made within the financial year. We have reviewed the evidence for this impairment and agree with the conclusion. As the size of the difference is immaterial, it has been correctly amended in this year's accounts.<br><br>Our remaining work performed has not identified any risks of material misstatement. Property, Plant and Equipment is recorded correctly in the balance sheet. |
| Pension Liability | In order to produce their report the pension actuary takes data from earlier in the year, and estimates the value of the pension assets and liabilities as at the year-end.<br><br>Our testing has no material misstatements.<br><br>We have concluded that we could rely on the work of the Pension Fund actuary. The values and entries from the actuarial report were correctly reflected in the Authority's financial statements.<br><br>We have obtained the final relevant assurances from Hampshire Pension Fund auditors which raised no material issues from their review of the IAS19 protocol procedures.<br><br>Events after the year-end, the McCloud consultation and the Goodwin judgement, do not have a material impact on pension liability and do not require disclosure. |

# Financial Statement Audit (cont'd)

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

| Item | Thresholds applied |
|---|---|
| Planning materiality | We determined planning materiality to be £111k (2019: £107k), which is 2% of Gross Revenue Expenditure reported in the accounts.<br><br>We consider Gross Revenue Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority. |
| Reporting threshold | We agreed with the Resources, Audit and Performance Committee that we would report to the Committee all audit differences in excess of £6k (2019: £5k) |

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits:

  Strategy applied:<br>
  Obtain management's workings and disclosures<br>
  Agree disclosures to supporting documentation<br>
  Test a sample of calculations for accuracy<br>
  Consider whether disclosures are complete in light of our existing knowledge and experience and are in line with code requirements

- Related party transactions.

  Strategy applied:<br>
  Obtain client's supporting documentation of related parties,<br>
  Check members and senior officer's interests against the transactions in the general ledger.<br>
  Review a sample of members and senior officers to external data such as Companies House to confirm accuracy of register or interests.<br>
  Consider whether disclosures are complete in light of our existing knowledge and experience and are in line with code requirements

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Section 4

# Value for Money

# Value for Money

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

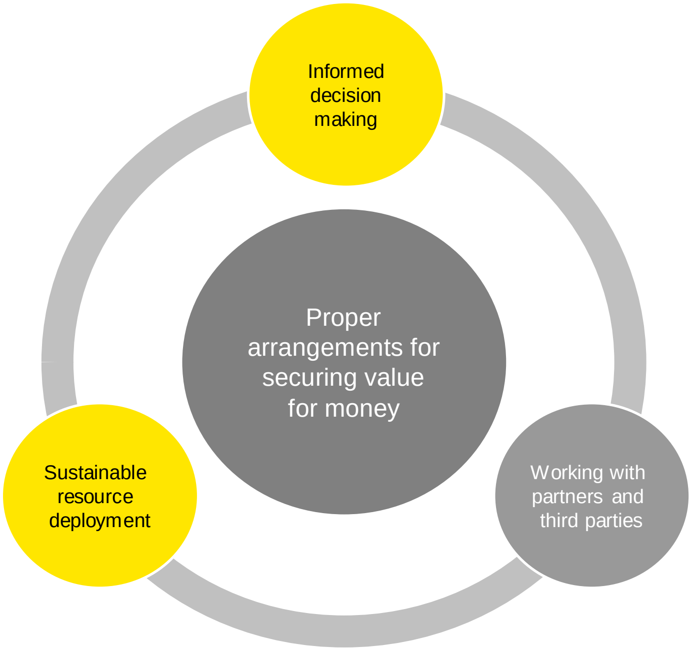
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

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

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authority's response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

We did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Section 5

# Other Reporting Issues

# Other Reporting Issues

## Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes.

The Authority is below the specified audit threshold of £500m. Therefore, we were not required to 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.

# Other Reporting Issues (cont'd)

## Objections Received

We did not receive any objections to the 2019/20 financial statements from members 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 at the Authority Meeting on 15 October 2020. 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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

Our audit did not identify any controls issues to bring to the attention of the Resources, Audit and Performance Committee.

Section 6

# Focused on your future

# Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Authority is summarised in the table below.

| Standard | Issue | Impact |
|---|---|---|
| IFRS 16 Leases | It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2022/23 financial year, following a recent further deferral announced in December 2020. | Whilst the adoption of IFRS 16 has been deferred for a further year, we encourage the Authority to undertake a detailed exercise to identify all of its leases during 21/22 and capture the relevant information for them. The Authority must ensure that all lease arrangements are fully documented. |

Appendix A

# Audit Fees

# Audit Fees

Our fee for 2019/20 is set out in the table below.

| Description | Final Fee 2019/20<br>£ | Planned Fee 2019/20<br>£ | Scale Fee 2019/20<br>£ | Final Fee 2018/19<br>£ |
|---|---|---|---|---|
| Total Audit Fee – Code work | £10,228 | £10,228 | £10,228 | £10,228 |
| Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (see next page) | £27,418 | | | |
| Revised Proposed Scale Fee | £37,644 | | | |
| 19/20 Scale Fee Variation* | £2,643 | | | |
| Total Audit Fee | £40,287 | £10,228 | £10,228 | £10,228 |

All fees exclude VAT

We confirm we have not undertaken any non-audit work

*An additional scale fee of £2,643 has been applied to the planned fee based on the following items:

1) £801 for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors
2) £1,126 for additional work required for the additional risk identified for the Going Concern disclosure
3) £716 for additional resourcing required to review delayed sampling evidence

# Audit Fees continued

## Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees (PSAA fee consultation), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond (Redmond Review) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified the proposed fee rebasing under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 19 May 2020, delayed from March 2020 due to the impact of the coronavirus pandemic.

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us, although we did not reach agreement

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.



ED None

EY-000070901-01 (UK) 07/18. CSG London.

In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.



ey.com