



The Annual Audit Letter for North York Moors National Park Authority

Year ended 31 March 2019

20 August 2019



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1. Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at North York Moors National Park Authority (the Authority) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's Scrutiny Committee as those charged with governance in our Audit Findings (ISA260) Report on 29 July 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £156,000, which is 2% of the Authority's gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 29 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO. We issued an assurance statement which confirmed the Authority was below the audit threshold on 7 August 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 29 July 2019.
Certificate	We certified that we completed the audit of the financial statements of North York Moors National Park Authority in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

Executive Summary

Working with the Authority

In our first year of audit at the Authority, we believe we have developed professional working relationships with you and your officers and have delivered a number of positive outcomes, including:

- regular liaison with senior finance managers and members of the Finance, Risk, Audit and Standards Committee (FRAS) to understand the issues facing the Authority
- an efficient audit - we delivered an efficient audit with you in June and July meeting the local government target date of 31 July 2019
- understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness
- Sharing our insight – we provided regular audit committee updates covering best practice. We also contributed to discussions and debates on a variety of committee topics outside of external audit agenda items
- Providing training – we provided your teams with training on financial statements and annual reporting
- Supporting development – we provided a workshop for members of the FRAS Committee on the roles and responsibilities of audit committees including governance issues, accounting developments and value for money arrangements. The day was an opportunity for members to network with other members across our Yorkshire local authority client base and discuss audit committee effectiveness.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

Grant Thornton UK LLP
August 2019

2. Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Authority's financial statements to be £156,000, which is 2% of the Authority's gross expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £5,000.

We set a lower threshold of £8,000, above which we reported errors to the Scrutiny Committee in our Audit Findings (ISA260) Report on 29 July 2019.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed
- the significant accounting estimates made by management are reasonable
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements including the narrative report and annual governance statement to check it is consistent with our understanding of the Authority and with the financial statements on which we gave our opinion.

We carried out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we obtained was sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority continues to face financial pressures and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determine the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence. 	<p>Our audit work did not identify any significant issues in relation to management override of controls.</p> <p>However, our review did note that there is no formal review of journals prior to posting to the ledger.</p> <p>Whilst we acknowledged that the controls around journals posting are proportionate to the size and complexity of the Authority, we recommended the Authority should formally consider whether to introduce some form of approval process for journals.</p> <p>Our audit work did not identify any other issues.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority revalues its land and buildings on a rolling five-yearly basis. For 2018-19 the valuer will carry out a full valuation of all land and buildings as at 1 April 2018. The valuation will include movements in values where required to 31 March 2019. This will reset the full five year valuation cycle.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (PY: £4.3m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the Authority's valuation expert discussed with the Authority's valuer the basis on which the valuations were carried out and challenging the key assumptions applied tested the information used by the valuer to ensure it is complete and consistent with our understanding tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register evaluated the assumptions made by management for any assets not revalued. 	<p>A full valuation of Land and Buildings was carried out by the Authority's valuation expert as at 31 March 2019. The valuation was carried out in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2018-19 and IAS 16.</p> <p>We were satisfied that the revaluation was appropriately reflected in the Authority's asset register and accounts.</p> <p>One issue was identified in relation to additions of £324k to the Danby Moors Centre which were originally treated as additions to 'land and buildings and then impaired to nil.</p> <p>Following audit review, these have been reclassified as 'vehicles, plant and equipment' and valued at cost. This adjustment did not impact on the Authority's level of useable reserves.</p> <p>Our audit work did not identify any other issues.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Occurrence of Section 106 compensation and mitigation income and expenditure</p> <p>The Authority's 2018-19 budget includes £1.3m of income and expenditure relating to Section 106 compensation and mitigation. This represents approximately 15% of the Authority's 2018-19 budget. Section 106 income and expenditure can only be recognised once certain conditions have been met.</p> <p>We have therefore identified the occurrence of Section 106 income and expenditure as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• evaluated the Authority's accounting policy for recognition of Section 106 income and expenditure• agreed the accounting entries made in Comprehensive Income and Expenditure Statement and Balance Sheet relating to Section 106 income and expenditure• gained an understanding of the Authority's system for accounting for Section 106 income and expenditure and evaluate the design of the associated controls• agreed, on a sample basis, amounts recognised as Section 106 income and expenditure in the financial statements.	<p>Our audit work did not identify any issues in respect of this risk.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Authority's pension fund net liability represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (PY: £4.32m in the balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. obtained assurance on the controls established by the North Yorkshire Pension Fund from the pension fund auditor evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation undertook procedures to confirm the reasonableness of the actuarial assumptions made reviewed assurances from the NAO appointed 'auditors expert' on the work of the actuary clarifying the appropriateness of this to the actuarial work and assumptions applied in the Authority's valuation checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>We reviewed this estimate and were satisfied that it was reasonable. Key assumptions were also reviewed and agreed as reasonable.</p> <p>The Authority requested updated reports from its actuary to take into account the impact on the Authority's pension numbers as a result of the McCloud judgement. The revised reports resulted in an increase in the Authority's pension fund liability of £0.238m, which was adjusted in the final accounts approved on 29 July 2019. This adjustment did not impact on the Authority's level of useable reserves.</p> <p>Our audit work did not identify any other issues.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified 'clean' opinion on the Authority's financial statements on 29 July 2019.

Preparation of the financial statements

The Authority presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Authority's Scrutiny Committee on 29 July 2019.

In addition to the key audit risks reported above, we identified two recommendations in relation to enhancing controls in place regarding ownership of the Authority's buildings and authorisation of journals.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

We carried out work on the Authority's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Authority was below the audit threshold on 7 August 2019.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of North York Moors National Park Authority in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

3. Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings and recommendations

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risk we identified and the work we performed is set out overleaf.

As part of our Audit Findings report agreed with the Authority in July 2019, we agreed a recommendation to address our findings:

- The Authority is attempting to plant significant woodland to utilise the Core Policy D element of its Section 106 funding. However, given the ongoing increases of Core Policy D funding and capacity/ logistical challenges around identifying locations for woodland creation, it is possible that carried forward Core Policy D funding could become more significant in future years and the risk of clawback will increase.
- We recommended the Authority continues to appropriately manage the programme and identify areas of the National Park where woodland creation can take place in order to mitigate future clawback of Section 106 monies

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Arrangements for managing Section 106 funding</p> <p>The Authority is due to receive £1.3m of Section 106 funding in 2018-19 to provide for a range of mitigation and compensation measures to help offset the impacts of the WoodSmith Mine on the environment and on tourism in the national park.</p> <p>This represents approximately 15% of the Authority's 2018-19 budget. Section 106 income can only be recognised when certain conditions are met. The Authority needs to ensure arrangements are in place to oversee effective management of this significant revenue stream for the benefit of the national park. As part of our Value for Money work we will focus on the arrangements put in place by the Authority to ensure Section 106 funding is spent in line with the mitigation and compensation measures specified in the agreement.</p> <p>These include the annual contribution of funding for landscape and ecological works; funding for a major woodland planting programme to address carbon offsetting; funding towards tourism promotion and; provision of financial security arrangements in relation to the development site.</p> <p>We will also consider the arrangements put in place by the Authority with partner organisations, involved in delivering the mitigation and compensation measures, to ensure that Section 106 funding is managed and spent effectively and in line with agreement.</p> <p>We will continue to meet with the Director for Polyhalite projects and other members of senior management to obtain the latest information on the Authority's Section 106 funding and the associated controls and governance frameworks.</p> <p>We will also consider any financial reporting implications arising from the recognition of Section 106 funding in the Authority's financial statements.</p>	<p>The Authority has put in place appropriate arrangements to ensure that Section 106 funding is spent in line with the mitigation and compensation measures specified by the agreement. The Authority has a Director of Polyhalite who has overall responsibility for managing the Section 106 agreement. She is supported by a dedicated minerals planner, a woodland creation team and the Authority's tourism and finance teams.</p> <p>Section 106 income and expenditure is monitored in year against budget, with regular reporting to the FRAS Committee. There is a strict separation of Section 106 Sirius monies from core resources. Any unspent income is treated as income in advance and carried in an earmarked reserve in the Authority's balance sheet. A compensation/mitigation plan is in place outlining how the Authority will spend the Section 106 monies. The Authority has engaged appropriately with partners regarding the section 106 agreement, with regular liaison with Sirius and other partners involved in the delivery of the agreement.</p> <p>In 2018-19, Section 106 spend in year was £1.252 million against a budget of £1.344 million. Some of the Landscape and Ecology projects that were planned for 2018-19 were not completed in the financial year due to constraints related to permissions, weather, pre-project health and safety work and shortage of craftspeople to deliver work on the ground. The amount of compensation provided in the agreement for the Core Policy D work exceeds the amount of woodland creation required in the early years of the agreement. As a result, £200k of the Core Policy D funding will be carried forward to 2019-20.</p> <p>As the woodland creation programme expands, this surplus will be reduced, however it is important that the Authority continues to plan for the scenario that it has to return some of its section 106 funding, if it is unspent over a three year period.</p>	<p>The Authority has appropriate arrangements in place to manage the Section 106 agreement. The Authority has financial monitoring arrangements and plans to ensure spending is consistent with the terms of the agreement.</p> <p>Whilst there was a small underspend against budget in 2018-19 (of 7% of budget), the Authority is able to carry Section 106 funding forward for a maximum of three years. For 2019-20, plans are in place, which include spend of £375k from the Landscape and Ecology contribution and delivery of 50ha of woodland across the National Park from the Core Policy D contribution.</p> <p>We are therefore satisfied that the Authority has proper arrangements for sustainable resource deployment and working with partners and other third parties in relation to it's Section 106 funding.</p>

Appendix A: Reports issued and fees

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

Reports issued

Report	Date issued
Audit Fee Letter	April 2018
Audit Plan	January 2019
Audit Findings (ISA260) Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £	2017-18 fees £
Statutory audit	9,252	TBC – see table on right	
Total fees	9,252	TBC	12,016

Non-audit services

We confirm that no non-audit services were provided to the Authority during 2018-19.

Audit fee variation

As outlined in our Audit Plan, the 2018-19 scale fee published by PSAA of £9,252 assumes that the scope of the audit does not significantly change.

There are two areas where the scope of the audit has changed, which has led to additional work. We noted this expectation in our ISA260 Report in July. The areas of additional work and resulting fee implications are set out in the following table.

Area	Reason	Fee proposed £
McCloud: Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
Pensions: IAS 19 audit work	The Financial Reporting Authority has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	500
Total		2,000

Fee variations are subject to PSAA approval.



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