

**North York Moors National Park Authority  
Finance, Risk Audit and Standards Committee**

**28 May 2019**

**External Audit Report and Sector Update**

**1. Purpose of the Report**

- 1.1 This paper provides the Finance, Risk, Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.
- 1.2 It includes a summary of emerging national issues and developments that may be relevant to the National Park Authority;
- 1.3 Also included are a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes).

**2. Recommendations**

- 2.1 That Members note the content of the report.

# Audit Progress Report and Sector Update

## North York Moors National Park Authority

Year ending 31 March 2019

27 May 2019



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# Introduction



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This paper provides the Finance, Risk, Audit and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a national park authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Finance, Risk, Audit and Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Gareth or Richard.

# Progress as at May 2019

## Financial Statements Audit

We have completed our planning for the 2018/19 financial statements audit and have issued a detailed Audit Plan which was presented to the February Finance, Risk, Audit and Standards Committee. The Audit Plan sets out our proposed approach to the audit of the Authority's 2018-19 financial statements.

Our interim audit visit was in February. Our interim fieldwork visit included:

- Reviewing the Authority's control environment
- Documenting our understanding of key financial systems
- Reviewing Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing.

The work completed and findings from our interim audit visit in February 2019 are set out on pages 6 and 7.

The statutory deadline for the issue of the 2018-19 opinion is 31 July 2019. The final accounts audit is due to begin on the 3 June with findings reported to you in the Audit Findings Report by the deadline of 31 July 2019.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach were included in our Audit Plan presented to the Finance, Risk, Audit and Standards Committee in February 2019.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

## Other areas

### Meetings

We continue to meet with management as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. As part of our interim audit we also met with the Authority's external property valuer.

### Events

We provide a range of workshops, along with network events for officers and members in addition to publications to support the Authority. Key finance staff attended our annual accounts workshop on 5 February in Leeds.

On 26 February, two members from Finance, Risk, Audit and Standards Committee attended our workshop on the roles and responsibilities of audit committees including governance issues, accounting developments and value for money arrangements. We would like to both colleagues who attended the event for their contribution to the day.

During the event, we discussed with the Chair examples of audit committee effectiveness surveys we have been involved in at other local government and NHS bodies. We shared some recent examples and would be happy to support the FRAS Committee with any future effectiveness surveys.

# Audit Deliverables

2018-19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018-19.	April 2018	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts Audit Plan to the Finance, Risk, Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Authority's 2018-19 financial statements.	January 2019	Complete. This was presented to the Finance, Risk, Audit and Standards Committee on 4 February 2019.
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	May 2019	Our findings to date are set out on pages 6 and 7.
<b>Audit Findings (ISA260) Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due

# Results of Interim Audit Work

The findings of our interim audit work completed to date, and the impact of our findings on the accounts audit approach, are summarised in the table below:

Audit area	Work performed	Conclusions and recommendations
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Authority's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we considered the work of internal audit to date, to help inform our understanding of the Authority's control environment and inform our audit strategy for our accounts and value for money work.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices.</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements</p>
<b>Review of information technology controls</b>	<p>We have carried out a high level review of the general IT control environment, as part of the overall review of the internal controls system. Our work confirmed that IT (information technology) controls were implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements</p>

Audit area	Work performed	Conclusions and recommendations
<b>Walkthrough testing</b>	We have completed walkthrough tests of the Authority's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. This includes PPE, pension liability and section 106 income and expenditure. In addition, we have held discussions with members of staff to obtain an understanding of the business processes and controls for other significant areas of the financial statements including PPE (across all elements of PPE), heritage assets, treasury, cash and cash equivalents, grant revenues (capital and revenue), other material revenue streams, operating expenditure and payroll.	Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Authority in accordance with our documented understanding.  Our work has not identified any weaknesses which impact on our audit approach.
<b>Journal entry controls</b>	We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy. Our work found that the controls in place were proportionate to the size and complexity of the Authority. We have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.	No issues have been identified to date from our work in reviewing the Authority's journal entry policies and procedures.
<b>Early substantive testing</b>	As part of our initial interim audit visit in February 2019, we selected samples for testing to month 9 (December 2018), including: <ul style="list-style-type: none"> <li>- Operating expenditure</li> <li>- Payroll</li> <li>- Section 106 income and expenditure</li> <li>- Grants</li> </ul>	No issues have been identified to date from our substantive testing.
<b>Emerging accounting Issues</b>	We have held regular discussions with members of the finance team around emerging accounting issues. These include: <ul style="list-style-type: none"> <li>- Adoption of new accounting standards (IFRS9 and IFRS15)</li> <li>- The Authority's accounting boundary</li> <li>- Valuation of Land and Buildings</li> <li>- Potential provisions</li> </ul>	We are satisfied that the Authority has considered the impact of new accounting standards and has an appropriate strategy for valuing its Land and Building.  Discussions around the Authority's group boundary and potential provisions to be recognised as at 31 March 2019 remain ongoing. We will continue to liaise with the finance team on these issues in the early part of our final audit visit in June.

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# Sector Update

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Local Authorities are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand and ongoing budget pressures. The Comprehensive Spending Review, due in 2019, will set National Park Grant (NPG) allocations over the medium term. With considerable uncertainty around the outcome of this review, it is crucial that national park authorities continue to develop other revenue streams and reduce their reliance on NPG.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font.

Public Sector

A purple rectangular button with the text "Local government" in white, sans-serif font.

Local  
government

# Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

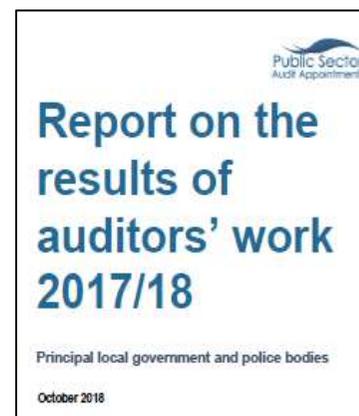
<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

**All the English National Park Authorities had their audit opinions issued by the 31 July deadline. All English National Park Authorities financial statement and value for money conclusions were unqualified.**

## PSAA Report

### Challenge question:

Has your Authority identified improvements to be made to the 2018-19 financial statements audit and Value for Money Conclusion?



# National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

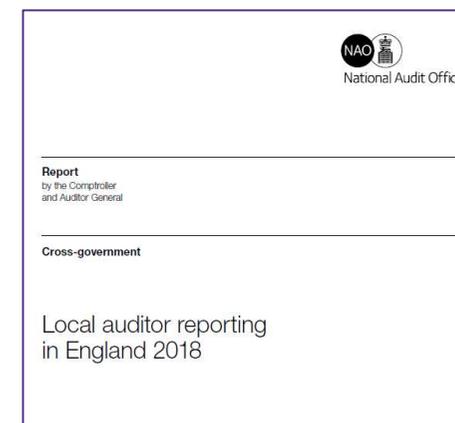
The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

**All the English National Park Authorities had their audit opinions issued by the 31 July deadline. All English National Park Authorities financial statement and value for money conclusions were unqualified.**



## NAO Report

### Challenge question:

Has your Authority responded appropriately to any concerns or issues raised in the External Auditor's report for 2017/18?



# ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

## Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

## What's the problem?

- **Short-term solvency vs. Longer-term value:**
  - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

## Future financial viability of local public bodies

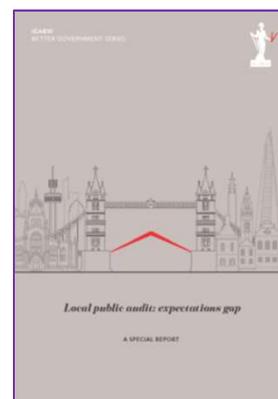
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

## The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



## The expectations gap

### Challenge question:

How effectively is the audit meeting client expectations?



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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

## National Audit Office link

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

## Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

