Deloitte.

# Northumberland National Park Authority

# Report to the Authority on the 2012 audit

# Planning report

May 2012

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# Executive summary

We have pleasure in setting out in this document details of our proposed audit plan for the Northumberland National Park Authority for the year ended 31 March 2012. The FRC has made it clear, in its ‘Update for Audit Committees – November 2010’, that it expects audit committees to focus activity on assessing and communicating risks and uncertainties and reliance on estimates, assumptions and forecasts. This report will describe the work we undertake in order to support this activity.

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| **Audit scope** | This document is in relation to the external audit of Northumberland National Park Authority. The audit is to be undertaken in accordance with International Standards on Auditing (UK and Ireland) as adopted by the UK Auditing Practices Board and as required under our contract with the Audit Commission. |

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| **Key audit risks** | The key audit risks which we have identified as part of our overall audit strategy are:<br>1. impact of funding cuts on internal controls;<br>2. treatment of redundancy costs and a potential redundancy provision;<br>3. management override of controls;<br>4. pension liability; and<br>5. revenue recognition.<br>Further details of the specific risks are set out in Section 2 of this report. |

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| **Status of our planning** | We undertook our planning visit in April and there were no issues noted that we need to draw to the attention of the Authority at this stage. |

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| **Materiality and prior year uncorrected misstatements and disclosure deficiencies** | For the 2012 financial statements, we will determine materiality based on gross expenditure for the year ended 31 March 2012. Current year materiality has been calculated as £88,800 (Prior Year: £80,543). This will be reviewed once the draft accounts for the year ended 31 March 2012 are received.<br>We will report to the Authority on all unadjusted misstatements greater than our trivial threshold £4,440 (PY: £1,611) and other adjustments that are qualitatively material.<br>There were no uncorrected misstatements identified in the prior year audit. |

# Executive summary (continued)

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| **Value for money audit** | In 2011/12, as set out in the "Work Programme and Scales of Fees 2011/12 - Local government, housing and community safety" and supporting the New Approach to VFM Audit document, our VFM audit work will consist of the following:<br>• review of the annual governance statement (AGS);<br>• review the results of the work of the Audit Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor's responsibilities at the audited body; and<br>• undertake other local risk-based work as appropriate, or any work mandated by the Audit Commission.<br>At this time we have not identified any local risk-based work, nor are we aware of any additional work mandated by the Commission. |

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| **Liaison with internal audit** | We continue to liaise with the Authority's Internal Auditors to maximise our combined effectiveness and eliminate duplication of effort where possible. This co-ordination will enable us to derive full benefit from the Authority's internal audit function, their systems documentation and risk identification during the planning of the external audit. |

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| **Other matters for those charged with governance** | We have included in the Appendix our publication entitled "Briefing on audit matters" those additional items which we are required to report upon in accordance with International Standards on Auditing (UK & Ireland). The document also provides detail of the safeguards and procedures we have in place to ensure our independence and objectivity.<br>We confirm we are independent of Northumberland National Park Authority and will reconfirm our independence and objectivity to the Authority for the year ending 31 March 2012 in our final report to the Authority. |

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| **Timetable** | This year's timetable comprises the following:<br>• a planning visit in April 2012;<br>• a review of the IT environment in June 2012; and<br>• a final visit starting 18th June 2012.<br>Our value for money work will be carried out between June and September.<br>The findings from the final visit and VFM work will be presented to the Authority at the September 2012 meeting.<br>The audited financial statements must be approved and submitted by 30 September 2012. The deadline for the Whole of Government Accounts ("WGA") has been extended to 5 October 2012 (previously 30 September). |

# 1. Scope of work and approach

## Auditing standards

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 Code of Audit Practice. Our audit objectives are set out in our "Briefing on audit matters" document, attached in the Appendix.

## Our audit opinion

The audit opinion we intend to issue will reflect the financial reporting framework required of local authorities as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Financial Reporting Standards.

## Materiality

For the 2012 financial statements, we have used budgeted gross expenditure as the benchmark for our materiality assessment as this statistic, in our view, represents the most appropriate measure of the scale of the organisation and, therefore, best reflects the context within which any misstatements should be considered. In accordance with our established methodology we have calculated a monetary indicator of materiality by applying a sliding scale factor to the budgeted gross expenditure. For the current year planning materiality has been calculated to be £88,800.

This assessment takes into account our knowledge of the organisation, our assessment of audit risks and the reporting requirements for the financial statements. The concept of materiality and its application to the audit approach are set out in our Briefing on Audit Matters document.

# 2. Key audit risks

Based upon our initial audit risk assessment and following our planning visit, we will concentrate specific effort on the significant audit risks set out below.

| Impact of funding cuts on internal controls | |
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| **Background** | The Authority is currently under both financial and resource pressures as a result of the Comprehensive Spending Review. This may lead to increased pressures on internal controls and budgeting capabilities. |
| **Deloitte response** | The impact of the financial and resource pressure on the Authority, and particularly on its internal controls, will be considered during the course of all our audit work. |

| Redundancy provision | |
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| **Background** | We understand that the Authority is undertaking a programme of restructuring. There is a risk that provisions for redundancies are not recognised in accordance with the strict requirements of International Accounting Standard 12. There is also a risk that termination costs paid in the year are not presented appropriately in the financial statements. |
| **Deloitte response** | We will review management's rationale for posting the provision and understand the basis for its calculation. We will assess whether the provision meets the criteria outlined in IAS12. We will review the appropriateness of redundancy disclosures in accordance with the Code and International Accounting Standards. |

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

| Pension liability | |
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| **Background** | In the current climate the choice of pension inflation, discount and yield assumptions will be both difficult and judgemental. Small and apparently insignificant changes to these key assumptions can have material consequences for the actuarial assessment of the liability included within the financial statements of the Authority. |
| **Deloitte response** | We will document the process the Authority has put in place to determine the assumptions and will use our in-house pension and actuarial specialists to review these assumptions for reasonableness based upon prevailing market factors. |

# 2. Key audit risks (continued)

| Revenue recognition | |
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| **Background** | International Standards on Auditing (UK and 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.<br>For the Authority we consider that the specific revenue recognition risk relates to the cut off of grant funding. |
| **Deloitte response** | 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 2011/12. We will also perform a review of all grant income which has been accounted for as received in advance to ensure that deferral is appropriate under IFRS. |

# 3. Consideration of fraud

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.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

We will make the following enquiries regarding fraud:

| Management | Internal Audit | The Audit Committee |
|---|---|---|
| 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.<br>Management's process for identifying and responding to the risks of fraud in the entity.<br>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.<br>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.<br>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity. | Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud. | How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.<br>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity. |

We will make inquiries of others within the Authority as appropriate. We will also enquire into matters arising from your whistle-blowing procedures.

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

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud or we have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity 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.

# 4. Internal control

## Obtaining an understanding of internal control relevant to the audit

As set out in the attached "Briefing on audit matters", for controls considered to be 'relevant to the audit' we are required to evaluate the design of the controls and determine whether they have been implemented ("D & I").

This includes reviewing controls relating to the financial reporting process, reconciliation of ledgers, the preparation of the financial statements and other reports, the reporting and processing of journals, the segregation of duties, related parties and key audit relevant general computer controls. The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

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

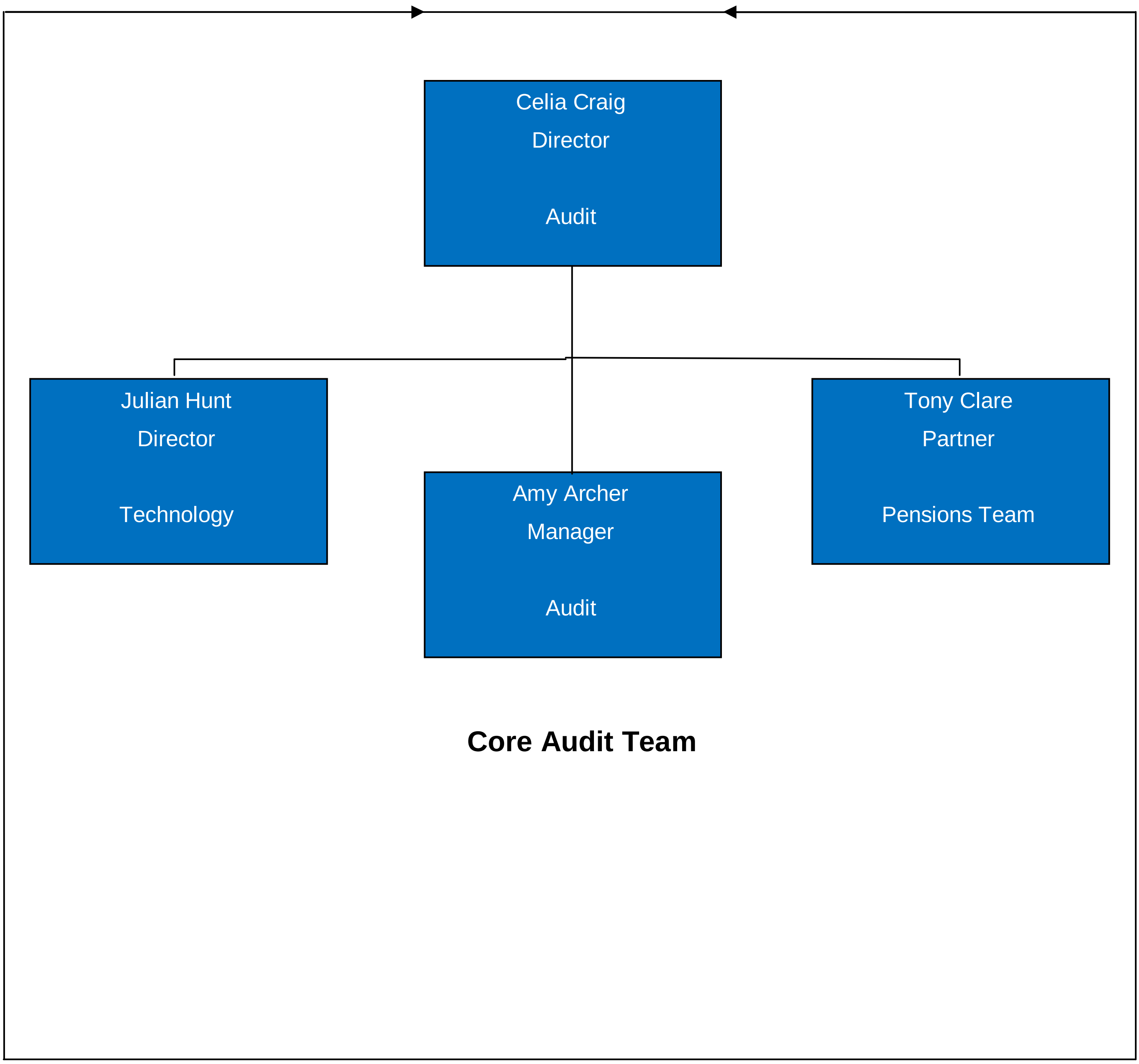
## Liaison with internal audit

We will continue to liaise with the Authority's Internal Auditors in a constructive and complementary manner to maximise our combined effectiveness and eliminate duplication of effort. This co-ordination will enable us to derive full benefit from the Authority's internal audit function, its systems documentation and risk identification during the planning of the external audit, to the extent we determine we can rely on their work.

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

# 5. Client service team

We set out below our audit engagement team.



# 6. Responsibility statement

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

The Audit Commission published a 'Statement of responsibilities of auditors and of audited bodies' alongside the Code of Audit Practice. The purpose of this statement is to assist auditors and audit bodies by summarising, in the context of the usual conduct of the audit, the different responsibilities of auditors and of the audited body in certain areas. The statement also highlights the limits on what the auditor can reasonably be expected to do. Our report has been prepared on the basis of, and our work carried out in accordance with, the Code and the Statement of Responsibilities.

While our reports 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 the Authority's system of internal control was 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 for its contents. We accept no duty, responsibility or liability to any other parties as the report has not been prepared, and is not intended, for any other purpose. It should not be made available to any other parties without our prior written consent.

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

**Deloitte LLP**

Chartered Accountants

Newcastle upon Tyne

Date: 22 May 2012

*For your convenience, this document has been made available to you in electronic format. Multiple copies and versions of this document may therefore exist in different media. In the case of any discrepancy, the final signed hard copy should be regarded as definitive. Earlier versions are drafts for discussion and review purposes only*

# Appendix: Briefing on audit matters

## Published for those charged with governance

This document is intended to assist the members and officers of the Authority to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "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 Auditing Practices Board ("APB"). 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 relevant financial reporting framework;
- to express an opinion as to whether the accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (the Code);
- to form an opinion on whether adequate accounting records have been kept by the Authority; and
- to form an opinion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to the members. 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.

# Appendix: Briefing on audit matters (continued)

**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 planning materiality based on professional judgement in the context of our knowledge of the audited entity, including consideration of factors such as member expectations, sector developments, financial stability and reporting requirements for the financial statements.

We determine planning 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 local considerations of any subsidiaries and divisions of the Authority, 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 the members of the Authority 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 the Authority 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.

# Appendix: Briefing on audit matters (continued)

**Audit methodology (continued)**

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);
- 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.

**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 |

We will report any matters noted in our planning and final audit reports.

# Appendix: Briefing on audit matters (continued)

## Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

**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 the members our assessment of objectivity and independence. This report includes a summary of any 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 Revised Ethical Standards issued by the 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. Any non-audit work which exceeds a deminimis amount set by the Audit Commission must be approved by the Commission prior to agreeing to carry out the work.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU 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. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies.
- Our work is carried out in line with the Audit Commission standing guidance for auditors. Compliance with that guidance and the quality of our work is subject to the Audit Commission's annual Quality Review Process.

# Appendix: Briefing on audit matters (continued)

**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 closely-related person) 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 closely-related person) 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 closely related persons) 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 Revised Ethical Standards**

The Auditing Practices Board (APB) has 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.