

# The Annual Audit Letter for Exmoor National Park Authority

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Year ended 31 March 2020

16 December 2020



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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 Exmoor National Park Authority (the Authority) for the year ended 31 March 2020.

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 Final Accounts Committee as those charged with governance in our Audit Findings Report on 6 October 2020.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Authority's financial statements to be £104k, which was 2% of the Authority's gross cost of services.
<b>Financial Statements opinion</b>	<p>We issued an unqualified opinion on the Authority's financial statements on 20 November 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Authority's land and buildings and its share of the property assets of Somerset Pension Fund. This was as a direct result of the impact of the Covid pandemic. This does not affect our opinion that the statements gave a true and fair view of the Authority's financial position and its income and expenditure for the year.</p>
<b>Whole of Government Accounts (WGA)</b>	We issued our WGA assurance statement on the Authority's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	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 6 October 2020.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Code of Audit Practice on 20 November 2020.

## 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's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

## Working with the Authority

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

## 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 £104k, which is 2% of the Authority's gross cost of services. 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 £10k.

We set a lower threshold of £5k, above which we reported errors to the Final Accounts Committee in our Audit Findings (ISA260) Report.

#### The scope of our audit

Our audit involved 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 included 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 Statement of Accounts to check it is consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts 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 is sufficient and appropriate to provide the 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><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> <li>- Remote working arrangements may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen</li> <li>- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus 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 have:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 12 June 2020.</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations</li> <li>• evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment</li> <li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul> <p>Management produced the draft financial statements and working papers in advance of the updated timetable. This is a significant achievement with all of the Authority’s staff working remotely. We completed our audit remotely and, while it took longer than normal as a result, we were able to utilise technology to corroborate information produced by the Authority. The Authority’s finance team have generally been responsive to audit queries throughout the audit and we would like to express our appreciation for this.</p>	<p>We did not identify any implications for our audit report resulting from Covid-19, however our report included standard reference to the macroeconomic conditions arising from Brexit and Covid-19.</p>

# Audit of the Financial Statements

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings:</b></p> <p>The Authority revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£18.8m in the 2019-20 balance sheet) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.</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 have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>discussed with the valuer the basis on which the valuations were carried out</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, included checking that the floor areas used are consistent with other records</li> <li>tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register.</li> </ul>	<p>We identified that there is no disclosure in the draft financial statements of the material uncertainty in the external valuer's report – therefore we proposed an enhanced disclosure on this matter.</p> <p>We included an emphasis of matter paragraph in our audit opinion in respect of the material uncertainty in the external valuer's report. This finding is in common with our audit work across other authorities.</p>
<p><b>Management override of internal controls:</b></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 faces external scrutiny of its spending 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 have:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>tested unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

# Audit of the Financial Statements

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b> The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit 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 (£9.8 million in the 2019-20 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 have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report</li> <li>• obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>	<p>We included an emphasis of matter paragraph in our audit opinion in respect of the material uncertainty on the valuation of the Authority's share of property assets in Somerset Pension Fund. This finding was in common with our audit work across other authorities.</p>

# Audit of the Financial Statements

## **Audit opinion**

We issued an unqualified opinion on the Authority's financial statements on 20 November 2020.

## **Preparation of the financial statements**

The Authority presented us with draft financial statements in June in accordance with the agreed timescale. This is a significant achievement with all of the Authority's staff working remotely. We completed our audit remotely and, while it took longer than normal as a result, we were able to utilise technology to corroborate information produced by the Authority. The Authority's finance team were generally responsive to audit queries throughout the audit and we would like to express our appreciation for this.

We did experience some issues regarding the timeliness of receipt of supporting documentation not being available to conclude our sample testing. Whilst we did ultimately receive the supporting audit evidence (following intervention from the Chief Finance Officer), and we acknowledge the challenges of remote working during the pandemic. We raised a recommendation on this in our Audit Findings report.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Authority's Final Accounts Committee on 6 October 2020.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in June 2020.

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 and with our knowledge of the Authority.

## **Whole of Government Accounts (WGA)**

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Authority was below the audit threshold.

## **Certificate of closure of the audit**

We certified that we completed the audit of the financial statements of Exmoor National Park Authority in accordance with the requirements of the Code of Audit Practice on 20 November 2020.



## 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 April 2020 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

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

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Authority in October 2020, we agreed a recommendation to address our findings.

### 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 2020.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our Audit Plan	Findings and conclusions
<p><b>Financial sustainability</b> The Authority had a 5% cut in grant funding in 2020-21 which, although it was offset by one-off funding in the year, is below what had originally been assumed.</p> <p>This represents a £54k reduction in the assumed grant position for the Authority. The Authority's Medium Term Financial Plan shows savings to be identified in 2021-22 to 2024-25 of £249k, £280k, £318k and £358k respectively in order to achieve a balanced budget. This was based on an assumption that the one-off funding received in 2020-21 would not be repeated, however, it now appears more likely that the funding will continue.</p> <p>The Authority still faces a significant financial challenge. While a number of solutions are being explored to close these budget deficits, they reflect the level of financial challenge faced by the Authority.</p> <p>Since the budget was set the Covid-19 pandemic has impacted the financial plans of all sectors of the UK, including local government and National Parks. We have been discussing the impact of the lockdown on the Authority through our liaison with the S151 Officer.</p> <p>We will consider the impact of the Covid-19 lockdown on the Authority's income projections and wider budget for 2020-21 and its medium terms financial plans.</p>	<p>The Authority meeting on 4 August 2020 considered a report from the Chief Executive and Head of Strategy and Development on the on the impact of budget cuts and Covid-19 on the Corporate Plan.</p> <p>Exmoor has more limited financial risks in relation to Covid-19 as its current business model does not include significant commercial income, therefore in the context of the global pandemic the Authority is less exposed. The Authority has experienced reduced income from car parking charges, visitor centre sales and the Outdoor Education Centre at Pinkery (estimated at £130k), but these are offset to some extent by savings in expenditure, stock acquisition and travel costs.</p> <p>As a result of the Covid pandemic, DEFRA has offered to effectively underwrite National Parks' revenue budgets in 2020-21 but the Authority did not request any additional financial support from the Government.</p> <p>We are currently in a second wave of Covid-19 in the winter, however, visitor numbers to the Park in the winter are likely to be lower and this is not considered to be a significant risk to the Authority's income projections.</p> <p>The key concern for the Authority is the longer-term implications for their core National Park Grant (NPG) funding. The NPG for 2021-22 onwards has not been confirmed and the current Medium Term Financial Plan includes assumptions for increases in NPG in line with the staff pay award.</p> <p>The Authority has relatively healthy useable reserves of £2.9m at 31 March 2020. However, many of these are earmarked for specific purposes and the Authority cannot rely on reserves to cover potential budget gaps going forward. We recommend the Authority should begin modelling for options for how it would deal with the potential budget gaps that may arise depending on the level of NPG awarded in future.</p> <p><b>On that basis we concluded that while the potential level of savings needed represent a significant challenge for the Authority, the risk was sufficiently mitigated and the Authority has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</b></p>

## 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.

### Fees

	Planned £	Actual fees £	2018-19 fees £
PSAA Scale fee paid by the Authority	9,004	9,004	9,004
Audit fee variations	3,750	5,663	754
<b>Total fees</b>	<b>12,754</b>	<b>14,667</b>	<b>9,758</b>

### Reports issued

Report	Date issued
Audit Plan	April 2020
Audit Findings (ISA260) Report	September 2020
Annual Audit Letter	December 2020

### \* Audit fee variation

Our Audit Plan included a fee variation for £3,750 to take into account the additional audit work to be performed in relation to PPE, pensions and key areas of estimate and judgement. Over the past nine months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019-20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, and particularly pension valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values and the Authority's share of pension fund property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

As a result of the above, increased costs have been incurred due to the additional time taken to deliver the audit this year. We have discussed the likelihood of an additional fee variation with the S151 Officer, noting an expected variation of 15% of the above planned fee, taking the proposed fee to £14,667. Please note that all proposed additional fee variations are subject to approval by PSAA in line with the Terms of Appointment.

*This audit is conducted for PSAA under the Local Audit (Appointing Person) Regulations 2015. The Authority has requested a full statutory audit to be performed (supported by DEFRA's views that all English National Parks should be subject to a full audit). The Scale fee set for the audit together with fee variations approved by PSAA is the amount payable by the Authority. GT is remunerated for this audit in accordance with the contract and variation arrangements that it has with PSAA.*



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