

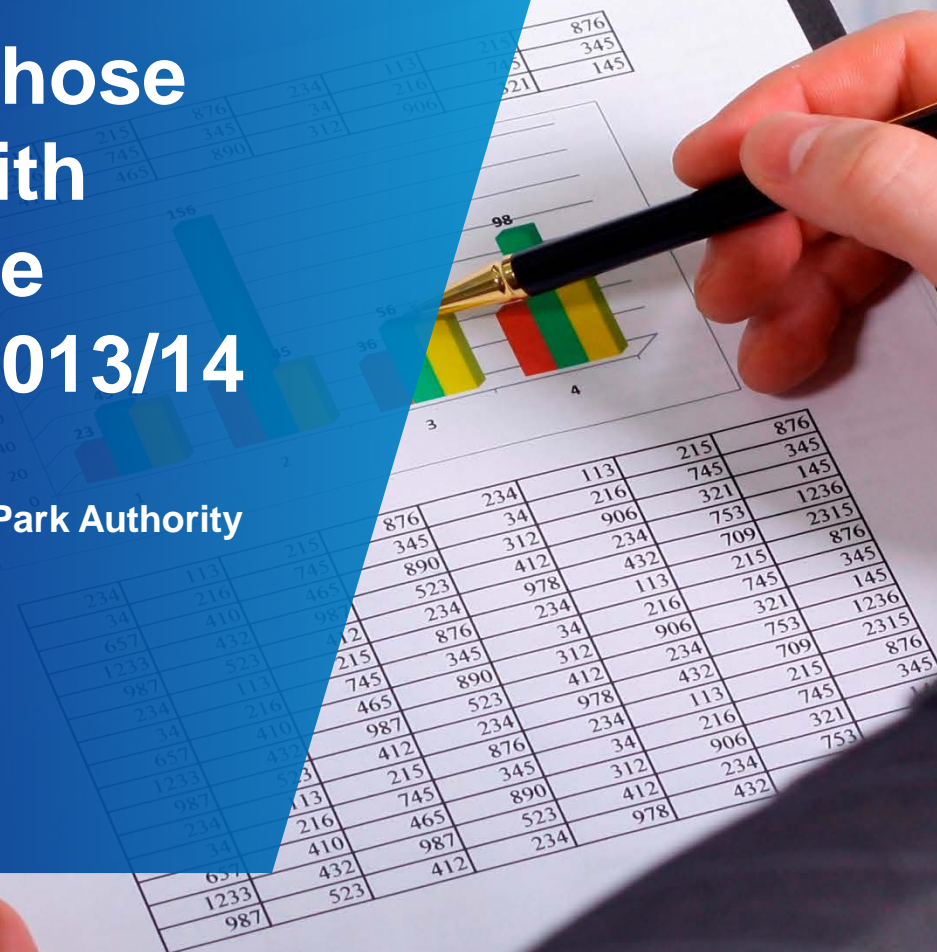


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# Report to those charged with governance (ISA 260) 2013/14

Peak District National Park Authority

August 2014



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Sue Sunderland, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.

## This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

## Scope of this report

This report summarises the key findings arising from:

- our audit work at Peak District National Park ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- our work to support our 2013/14 value for money (VFM) conclusion.

## Financial statements

Our *External Audit Plan 2013/14*, presented to you in February 2014, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March 2014 (interim audit) and August 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

## VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. In the case of your authority this means the scope of our work on value for money is limited to a review of your annual governance statement (AGS) unless any specific risks are identified

One specific risk has been identified regarding saving plans.

## Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
<b>Audit adjustments</b>	<p>Our audit of your financial statements identified material adjustments to the Property, Plant and Equipment (PPE) note. These affected the gross book value of assets and the accumulated depreciation, but has no impact on the net book value.</p> <p>The Authority made a small number of presentational adjustments. There was no impact on the General Fund.</p> <p>We have raised one recommendations arising from our work, which is summarised in Appendix 1.</p> <p>As a consequence of the additional work that was needed to resolve the issues around the adjustments to PPE we will need to charge an additional fee of £2,000 (subject to Audit Commission approval).</p>
<b>Accounts production and audit process</b>	<p>The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.</p>
<b>Control environment</b>	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.
<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<b>VFM conclusion and risk areas</b>	The scope of our work on value for money is limited to a review of your annual governance statement (AGS) unless any specific risks are identified. There is one matter to report.

**We have identified one issue in the course of the audit of the audit that is considered to be material.**

**We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.**

### Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit, Resource and Performance Committee on 19 September 2014.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Our audit identified significant audit differences in the Property, Plant and Equipment note (note 11). These differences related to:

- misclassification of the impairment costs identified in the year, which have now been amended and show in the cost or valuation section of the note; and
- the accumulated depreciation figure to be written off on revaluation which was materially incorrect. This value has now been adjusted and correctly disclosed on the note.

These amendments affect both the gross book value and accumulated depreciation values in the note, but do not impact on the closing net book value.

Due to the misclassifications identified above, it is likely that the opening gross book value and accumulated depreciations values are misstated. However, based on the much lower balances brought forward it is unlikely that these balances are materially misstated. Therefore we have agreed the necessary amendments can be worked during 2014/15 as work on the fixed asset register takes place.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14* ('the Code'). We understand that the Authority will be addressing these where significant.

## Section three

# Key financial statements audit risks


We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.


In our External Audit Plan 2013/14, presented to you in February 2014, we identified the key risks affecting the Authority's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues

Key audit risk	Issue	Findings
	<p>During the year, the Local Government Pension Scheme for Derbyshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Derbyshire County Council who administer the Pension Fund based on information received from the Authority.</p>	<p>As part of our audit, we agreed the data provided to the actuary back to the systems and reports from which it was derived, and tested the accuracy of this data.</p> <p>We also liaised with the separate KPMG audit team for the Pension Fund, where this data was provided by the Pension Fund on the Authority's behalf.</p> <p>No issues were identified relating to the pension fund triennial review</p>

Key audit risk	Issue	Findings
	<p>The Authority's Fixed Asset Register (FAR) is spreadsheet based. The PPE figures in the accounts come straight from the FAR, without passing through the ledger first. The spreadsheet FAR has served well in the past, but presents inherent risks around the accuracy of data transfer.</p>	<p>Our audit of the fixed asset register identified several minor formula errors. None had a material impact on the accounts but confirm the inherent risks around the integrity of the figures in the register.</p> <p>Given the wider issues identified around accounting for PPE this year consideration should be given as to whether current spreadsheet is still fit for purpose, or whether a FAR software package would be more appropriate, particularly if it included reporting elements which would help in the preparation of the PPE notes.</p>

Officers maintained the high quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 27 <sup>th</sup> June 2014
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> , which we issued in February 14 and discussed with Philip Naylor, set out our working paper requirements for the audit.  The quality of working papers provided was consistently good and met the standards specified in our <i>Accounts Audit Protocol</i> .
<b>Response to audit queries</b>	Officers resolved our audit queries in a reasonable time.



**The Authority's organisation control environment is effective, and controls over the key financial systems are sound.**

During March 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

### **Organisational control environment**

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

We found that your organisational control environment is effective overall.

### **Controls over key financial systems**

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on our work on controls over the year end process, the controls over the financial systems are sound.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require a signed management representation letter.**

**Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.**

### **Declaration of independence and objectivity**

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Peak District National Park Authority for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Peak District National Park Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

### **Management representations**

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

### **Other matters**

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

**The wording of your Annual Governance Statement accords with our understanding.**

### **Background**

To provide stability for auditors and audited bodies, the audit Commission has kept the VFM audit methodology unchanged from last year.

In the case of your Authority this means the scope of our work on value for money is limited to a review of your annual governance statement (AGS) unless any specific risks are identified.

In our Audit Plan we identified one specific risk linked to the ongoing development and delivery of your savings plans. This related to pressures on the finances of the Authority leading to reduced funding and budgets . We have reviewed the plans that the Authority has in place for dealing with the increased need to make savings and are confident that plans are sufficiently robust to ensure that the Authority can continue to provide services effectively.

As a result of our review of the AGS and through discussions with Senior Managers, we have made one recommendation regarding the slower than anticipated progress around implementation of the capital asset management programme. This is particularly apparent with Brosterfield Caravan Site, where there has been no further developments in the last year.

### **Conclusion**

We have no matters to formally report within our opinion.

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>2</b> <b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p><b>3</b> <b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>1</b>	<p><b>Fixed Asset Register (FAR)</b></p> <p>We have identified several formula errors within the spreadsheet that is used for the FAR. None of these have a material impact on the accounts, but questions the integrity of the system</p> <p><b>Recommendation</b></p> <p>The Authority should consider whether the spreadsheet used for the FAR is still fit for purpose, or whether a FAR software package would be more appropriate. If the spreadsheet is maintained, it requires detailed review to ensure that its formula's are correct</p>	<p>Agreed. A review of the asset spreadsheet will be carried out later in the year (2014) to correct formula errors and enhance reconciliations. This is considered to be the most cost effective way forward before any further consideration of a software package purchase.</p>
2	<b>1</b>	<p><b>Prior period amendments</b></p> <p>We have identified misclassifications in the Property, Plant and Equipment note and it is likely that the opening gross book value and accumulated depreciations values are misstated.</p> <p><b>Recommendation</b></p> <p>The Authority needs to work through the historic gross book value and accumulated depreciation figures to ensure that they are correctly stated.</p>	<p>Agreed. These misclassifications will be dealt with in the review above and the values will be corrected if necessary.</p>

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>2</b> <b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p><b>3</b> <b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	2	<p><b>Capital asset management programme</b></p> <p>Slower progress than anticipated has been made on the Authority's asset management programme.</p> <p><b>Recommendation</b></p> <p>The Authority needs to proactively manage this programme to ensure progress is made in 2014-15</p>	<p>The Authority approved the response to the strategic review of property in May 2014 and target dates for implementation for the period 2014-2017. Progress against the agreed action plan will be monitored by the Integrated Property Board. It is agreed that there have been delays in progressing action on Brosterfield and a timeline for proceeding is being considered by the Audit Resources and Performance Committee on 19 September. Other property reports are also being considered by this Committee in line with the action plan including: Losehill Hall Bungalow; Aldern House; North Lees.</p>

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Standing Guidance for Local Government Auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

#### **Auditor declaration**

In relation to the audit of the financial statements of Peak District National Park Authority for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Peak District National Park Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.



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