# Lee Valley Regional Park Authority

## Audit planning report

Year ended 31 March 2019

28 January 2019

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Lee Valley Regional Park Authority,
Myddelton House, Bulls Cross,
Enfield, Middlesex
EN2 9HG

28 January 2019

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Authority , and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 14 February 2019 as well as understand whether there are other matters which you consider may influence our audit.

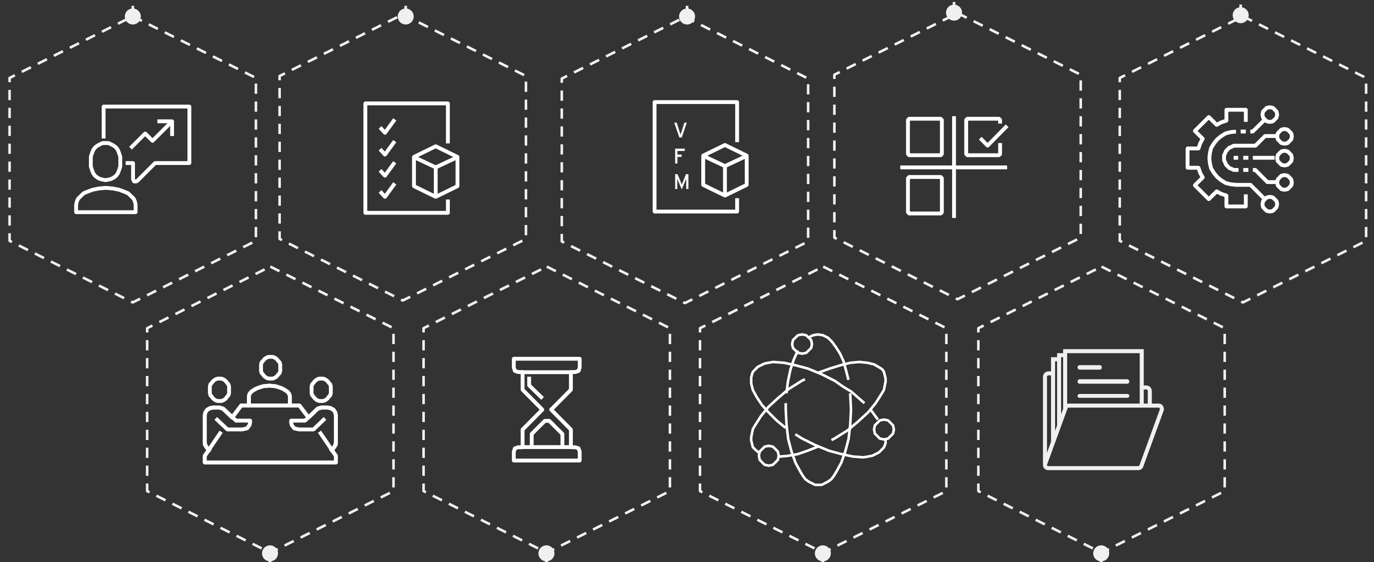
Yours faithfully

Neil Harris

For and on behalf of Ernst & Young LLP

# Contents






Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/ ).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Lee Valley Regional Park Authority in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Lee Valley Regional Park Authority those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Lee Valley Regional Park Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

# 01 Overview of our 2018/19 audit strategy

# Overview of our 2018/19 audit strategy

**The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Risk Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.**

## Audit risks and areas of focus

| Risk / area of focus | Risk identified | Change from PY | Details |
|---|---|---|---|
| Misstatements due to fraud or error | Fraud risk | No change | As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. |
| Incorrect capitalisation of revenue expenditure | Fraud risk | New area of focus | Linking to our fraud risk above we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate risk, given the extent of the Authority's capital programme. |
| Valuation of Property, plant and equipment (PPE) | Significant risk | No change in risk of focus | Property, plant and equipment (PPE) represents a significant balance of some £226 million in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. As the outputs from the valuer are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. |
| Pension Valuation and Disclosures | Inherent risk | No change in risk or focus | The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.<br>The Authority's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Authority's balance sheet.<br><br>The information disclosed is based on the IAS 19 report issued to the Authority by the actuary. As with other authorities, accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be an inherent risk. |
| New Accounting Standards | Inherent risk | New risk identified this year. | IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) apply from 1 April 2018. We will assess the impact of these new standards to determine whether they have been appropriately implemented by the Authority . |

# Overview of our 2017/18 audit strategy

## Materiality

Planning materiality

£4.742m

Planning materiality has been set at £4.74m (£4.7m in 17/18), which represents 2% of the prior year total non current assets. We have continued with our approach from prior year, where the basis on which we set materiality reflects the fact that the main focus of the users of the accounts has been assessed to be the Authority's stewardship of the assets, rather than the services provided, as services are now largely provided by the Leisure Trust. We have therefore based materiality on total non current assets rather than the gross cost of services.

Performance materiality

£3.557m

Performance materiality has been set at £3.56m (£3.3m 17/18), which represents 75% of materiality.

Audit differences

£237k

We will report all audit differences, that are uncorrected, relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £237k (£220k in 17/18) to the Audit Committee. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee as Those Charged with Governance.

Specific materiality

£396k

We have set specific a materiality of £0.396m (£0.358m in 1718) for those items in the Comprehensive Income and Expenditure Statement which impact on the levy. This includes income and expenditure in the net cost of services, financing and investment income and expenditure and non specific grant income. We have also set a specific materiality for officer remuneration disclosures, members allowances and exit packages. This reflects our understanding that an amount less than our above materiality, based on assets, would influence the economic decisions of users of the financial statements in relation to these items.

# Overview of our 2017/18 audit strategy

## Value for money conclusion

We have completed our value for money risk assessment against the overall criteria that: *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*

We have considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. Our risk assessment at planning stage has identified two significant risks to our value for money conclusion. These are

(1) Delivery of a robust Medium Term Financial Plan, and (2) Commercialisation decisions to generate income and maximise the return from assets

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Lee Valley Regional Park Authority give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards. When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority.

## Audit team

Our audit team.

**Neil Harris – Associate Partner**
Neil has over 25 years experience of Local Authorities, Pension Funds and their respective audits, and has been an Engagement Leader in EY for six years, having previously worked for the Audit Commission as a District Auditor between 2009 and 2012.

**Justine Thorpe, Manager**
Justine is a Manager within the UK&I Assurance practice, with over 20 years experience of UK LG audits. She is a member of CIPFA (Chartered Institute of Public Accountancy) and will be the key contact for your Finance Team.

# 02 Audit risks

# Our response to significant risks

**We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.**

## Misstatements due to fraud or error

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the classification of revenue spend as capital and the Income and expenditure accounts.

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of fraud in revenue recognition. We will undertake specific testing to address this risk.

### What will we do?

Our approach will focus on:

- testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- reviewing accounting estimates for evidence of management bias;
- evaluating the business rationale for significant unusual transactions; and
- review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

# Our response to significant risks (continued)

| Incorrect capitalisation of revenue expenditure* | What is the risk? | What will we do? |
|---|---|---|
| | Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Council's capital programme which is significant for 2018/19. | Should capital expenditure be material to the financial statements, we will undertake additional procedures to address the specific risk we have identified, which will include:<br>➢ Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised. |

# Our response to significant risks

## Valuation of Property, plant and equipment (PPE)

### Financial statement impact

We focused on aspects of the land and buildings and Investment Property valuation which could have a
material impact on the financial statements, primarily:

- significant changes in the asset base;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

### What is the risk?

Property, plant and equipment (PPE) and investment property (IP) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and/or depreciation charges. The PPE and IP values in the Balance Sheet are shown below:

| Asset type | Value at 31 March 3018 (£m) |
|---|---|
| PPE: | |
| • Land and buildings | 185.95 |
| • Vehicles, plant and equipment | 3.864 |
| • Infrastructure | 2.062 |
| • Community assets | 34.464 |
| **Total PPE** | **226.34** |
| **Total IP** | **5.176** |

Given the size of the Authority's portfolio, significant judgemental inputs and estimation techniques are required to calculate the year-end asset values held in the balance sheet.

As the Authority's asset base is significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk individual asset values may be under or overstated or the associated accounting entries incorrectly posted.  ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying estimates. We will consider engaging experts from our EY Real Estates team to support us on reviewing the assumptions underpinning the valuation of any harder to value specialist assets.

### What will we do?

Our approach will focus on:

- considering the work performed by the Authority's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- sample testing key asset information and assumptions used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- reviewing assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- considered there have been no significant changes to useful economic lives as a result of the most recent valuation; and
- testing accounting entries have been correctly processed in the financial statements

# Other areas of audit focus

**We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.**

| What is the risk/area of focus? | What will we do? |
|---|---|
| <u>Pension Liability Valuation – inherent risk</u><br><br>The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the London Pension Fund Authority.<br><br>The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £29.9 million.<br><br>The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the London Pension Fund Authority. Accounting for this scheme involves significant estimation and judgement. ISAs 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. | We will:<br>▸ Liaise with the auditors of London Pension Fund Authority, to obtain assurances over the information supplied to the actuary in relation to Lee Valley Regional Park Authority;<br>▸ Assess the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and<br>▸ Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19. |
| **<u>IFRS 9 financial instruments – inherent risk</u>**<br><br>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:<br>▸ How financial assets are classified and measured;<br>▸ How the impairment of financial assets are calculated; and<br>▸ The disclosure requirements for financial assets.<br><br>There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment. | We will:<br>▸ Assess the Authority 's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;<br>▸ Consider the classification and valuation of financial instrument assets;<br>▸ Review new expected credit loss model impairment calculations for assets; and<br>▸ Check additional disclosure requirements. |

# Other areas of audit focus

**We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.**

| What is the risk/area of focus? | What will we do? |
|---|---|
| <u>IFRS 15 Revenue from contracts with customers – inherent risk</u><br><br>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.<br><br>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.<br><br>The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.<br><br>The impact on local authority accounting is likely to be limited as large revenue streams like Authority tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced. | We will:<br><br>▸ Assess the Authority 's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.<br><br>▸ Consider application to the Authority 's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and<br><br>▸ Check additional disclosure requirements. |

# 03 Value for Money Risks

# Value for Money

## Background

We are required to consider whether the Authority has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

“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”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

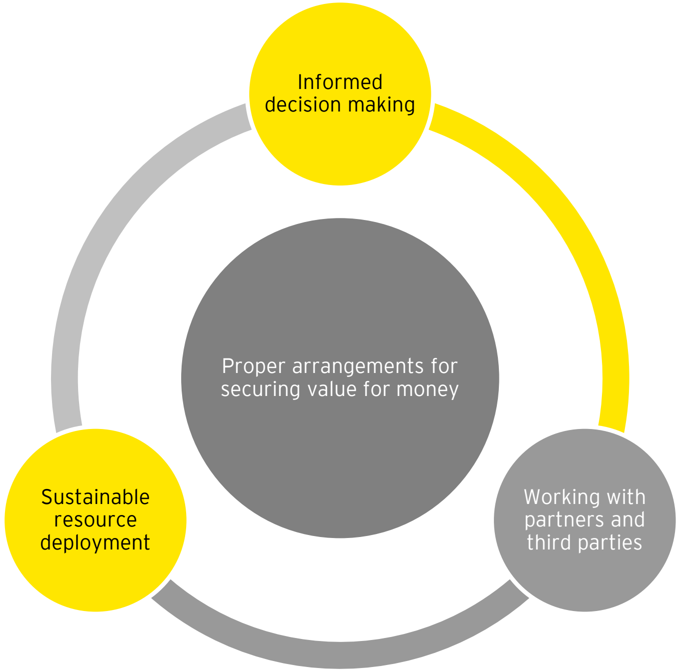
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as: “A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the Authority to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the two following significant risks noted on the following pages which we view as relevant to our value for money conclusion:

- Delivery of a robust Medium Term Financial Plan
- Commercialisation decisions to generate income and maximise the return from assets



# Value for Money Risks

| What is the significant value for money risk? | What arrangements does the risk affect? | What will we do? |
|---|---|---|
| **Delivery of a robust Medium Term Financial Plan** | | |

In the Authority's Medium Term Financial Plan (MTFP), reported to the Authority in January 2019, the Authority's balanced budget for 2018/19 includes the use of reserves of £302k for the 2018/19 financial year, as shown below. Reserves are forecast to be at £3.9 million at 31 March 2019, despite the Authority setting its minimum level of reserves at £4 million in January 2019.

| | 2018/19 (£000) | 2019/20 (£000) | 2020/21 (£000) | 2021/22 (£000) | 2022/23 (£000) |
|---|---|---|---|---|---|
| Projected budget | 9,878 | 9,548 | 9,182 | 9,244 | 9,288 |
| Proposed levy | (9,576) | (9,576) | (9,576) | (9,001) | (8,371) |
| Budget deficit / surplus | 302 | 28 | 394 | 243 | 917 |
| Savings | 0 | 2 | 204 | 364 | 779 |
| Revised budget | 302 | 30 | 598 | 121 | 138 |
| Reserves c/f | 3,897 | 3,927 | 4,525 | 4,646 | 4,509 |

As the MTFP shows, the Authority has medium term plans in place to improve the Authority's financial sustainability and increase reserves to £4.5 million by the end of 2022/23, whilst also further reducing the reliance on the levy. The Authority's funding strategy includes:

1. Developing new income streams
2. Making efficiency savings
3. Maximising the return from its assets

We will review the robustness of the Authority's medium term financial planning and proposed funding strategy for its prudence and sustainability, affordability and practicality. We will also review the Authority's Capital Funding model and the impact of borrowing, if any, on the MTFP.

**What arrangements does the risk affect?**

Deploy resources in a sustainable manner

**What will we do?**

We will:

- assess the key assumptions made within the annual budget and the MTFP;
- review the progress made in identifying savings for 2019/20 and beyond;
- comment on the extent of borrowing for investments and borrowing overall;
- review the funding strategy for realistic income targets.
- review the Authority's Capital Funding model and the impact of borrowing, if any, on the MTFP.

# Value for Money Risks

| What is the significant value for money risk? | What arrangements does the risk affect? | What will we do? |
|---|---|---|
| **Commercialisation decisions to generate income and maximise the return from assets** | | |
| Whilst the nature of the Lee Valley Regional Park means that it requires some local authority funding, the Park is now recognised on the international stage and therefore the Authority aims to generate funding from new income streams and maximising its return from its Olympic legacy assets and its property portfolio.<br><br>The Authority has plans to develop commercial and investment opportunities to increase its annual income targets so that it reduce its reliance on the levy from local Authorities. It is also moving from a service provider to more of an enabling organisation as it continues to develop new operation models for its services. A key development has been to outsource its sporting venues and some business support services in a five year contract to improve economy, efficiency and effectiveness. Major business developments currently underway are:<br>• Development of the Lee Valley Ice Centre (circa £38 million project);<br>• Picketts Lock Development (circa £40 million project), whereby LVRPA are the enabler and a third party takes on the financial risk;<br>• Leisure Services Contract retender (circa £20 million);<br>• Optimisation of assets through purchases and disposals identified by the Authority's Land and Property Strategy Working Group.<br><br>We will review the Authority's Corporate Land and Property Strategy, adopted by the Authority in January 2017, and how this drives the Authority's approach to setting of service objectives, business planning and the proper stewardship of assets and the delivery of value for money. There are risks around the uncertainties of the timing of some of the income generation projects. | Informed decision making<br><br>Working with third parties | We will review the:<br>• underlying rationale for the proposed investments and clarity on how this sits with the Authority's strategy and objectives, including the consideration of options and alternatives;<br>• legal powers and other advice obtained e.g. tax, investment decisions;<br>• compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code;<br>• clarity of governance arrangements for the Authority's decision making with regard to their regeneration and investment property decisions;<br>• recognition and reporting of risks in the Corporate risk register;<br>• robustness of assumptions from commercial developments in the Authority budget and medium term financial strategy; and<br>• Authority's business planning process for undertaking commercial projects. |

# 04 Audit materiality

# Materiality

## Materiality

For planning purposes, materiality for 2018/19 has been set at £4.74m. This represents 2% of the Authority's prior year total non current assets. Materiality will be reassessed throughout the audit process. We have continued with our approach from prior year, where the basis on which we set materiality reflected the fact that the main focus of the users of the accounts has been assessed to be the Authority's stewardship of the assets, rather than the services provided, as services are now largely provided by the Leisure Trust. We have therefore based materiality on total non current assets rather than the gross cost of services. We have provided supplemental information about audit materiality in Appendix C.

Non current assets
**£237m**

Performance materiality
**£3.56m**

Planning materiality
**£4.74m**

Audit differences
**£237k**

Specific materiality
**£396k**

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £3.56m which represents 75% of planning materiality. We have set this level based on the level of expected errors in the financial statements.

**Audit difference threshold** – we propose that misstatements identified below this threshold of £237k are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the primary statements.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

**Specific materiality** – We have set a materiality of £0.396k (£0.358m in 17/18) for those items in the comprehensive income and expenditure statement which impact on the levy. This includes income and expenditure in the net cost of services, financing and investment income and expenditure and non specific grant income. We have also set a specific materiality for officer remuneration disclosures, members' allowances and exit packages. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these items.

# 05 Scope of our audit

# Our Audit Process and Strategy

**Objective and Scope of our Audit scoping**

Under the Code of Audit Practice our principal objectives are to review and report on the Authority 's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

**Procedures required by standards**
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

**Procedures required by the Code**
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO [delete if not applicable]

**2. Arrangements for securing economy, efficiency and effectiveness (value for money)**

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

# Our Audit Process and Strategy (continued)

**Audit Process Overview**

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:
We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:
We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit planning, where they raise issues that could have an impact on the financial statements.

# 06 Audit team

# Audit team

**Audit team structure:**

**Neil Harris**
Lead Audit Partner

**Justine Thorpe**
Manager

**Lee Terron**
Senior

**GPS Analytics**

**Stewart Cowan**
Manager

* Key Audit Partner

# Use of specialists

- Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists may provide input for the current year audit are:

| Area | Specialists | Management Specialists |
|---|---|---|
| Valuation of Land and Buildings | EY Valuations Team (this will be assessed once we have received the draft accounts and completed our interim audit) | Montague Evans |
| Pensions disclosure | EY Actuaries | Barnet Waddingham |

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Authority's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

# 07 Audit timeline

# Audit timeline

## Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2018/19 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Authority now has less time to prepare the financial statements and supporting working papers. Risks to the Authority include slippage in delivering data for analytics work and delays in providing good quality working papers and responses to audit queries.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Authority staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Authority we will:

- Work with the Authority to engage early to facilitate early substantive testing where appropriate.
- Facilitate faster close workshops to provide an interactive forum for accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2018/19 financial year.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.

# Audit timeline

## Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

| Audit phase | Timetable | Audit committee timetable | Deliverables |
|---|---|---|---|
| Planning:<br>Risk assessment and setting of scopes. | December and January | | |
| | February | Audit Committee - 14th February 2019 | Audit Planning Report |
| Walkthrough of key systems and processes | March | | |
| Interim audit testing | March | | |
| Year end audit | June | | |
| Audit Completion procedures | July | Audit Committee- (Date to be confirmed) | Audit Results Report<br>Audit opinions and completion certificates |
| Conclusion of Reporting | August | Audit Committee (Date to be confirmed) | Annual Audit Letter |

# 08 Independence

# Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

| Required communications | |
|---|---|
| **Planning stage** | **Final stage** |
| ▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;<br>▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;<br>▸ The overall assessment of threats and safeguards;<br>▸ Information about the general policies and process within EY to maintain objectivity and independence.<br>▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] | ▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;<br>▸ Details of non-audit services provided and the fees charged in relation thereto;<br>▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;<br>▸ Written confirmation that all covered persons are independent;<br>▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;<br>▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and<br>▸ An opportunity to discuss auditor independence issues. |

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

# Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

## Self interest threats

A self interest threat arises when EY has financial or other interests in the Authority. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved. None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0%. We have adopted the following safeguards as a result./No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report. / The table below sets out the other self interest threats that exist as the date of this report.

## Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

## Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

# Other communications

| EY Transparency Report 2017 |
| --- |
| Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.<br>Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:<br>https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018 |

# 09 Appendices

# Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

| | Planned fee 2018/19 | Scale fee 2018/19 | Final Fee 2017/18 |
|---|---|---|---|
| | £ | £ | £ |
| Total Fee - Code work (1) & (2) | 14,337 | 14,337 | 18,619 |
| Additional fees | (1) And (2) | 0 | 0 |
| Total audit | 14,337 | 14,337 | 18,619 |
| Other non-audit services not covered above | 0 | 0 | 0 |
| Total fees | 14,337 | 14,337 | 18,619 |

*All fees exclude VAT*

Note:

(1) The 18/19 Code work excludes the planned procedures highlighted in section two of this report to address the new accounting requirements of IFRS 9 and IFRS 15. These changes to the Code are not covered by the PSAA scale fee and therefore we may need to charge fees for any additional work carried out in these areas or any area of increased risk highlighted on pages 5 and 6 of this plan.

The agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Authority ; and
- ► The Authority has an effective control environment.

(2) If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Authority in advance. Any variations to the audit fee need to be approved by PSAA.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

We are finalising our budgets for the 2018-2019 external audit in response to the scope of the audit and the risks set out in the Audit Plan. The scale fee historically assumes a non-complex organisation whereas we believe the Authority has a diverse and complex asset base and a range of significant decisions that are critical to the Authority's future financial resilience and sustainability.

We also believe these areas are recurring matters that will drive the risk assessment and scope of our audit in 2018-2019 and in future years. We are proposing to share with management the outcome of our rebasing exercise and what we think the implications are for the 2018-2019 planned fee and the scale fee in the future. Subject to management comments, we will provide an update to the Committee on our proposed fees. Any variation of rebase to the audit fee is also subject to approval by PSAA.

# Appendix B

## Required communications with the Audit Committee

**We have detailed the communications that we must provide to the** Audit Committee.

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team | Audit planning report |
| Significant findings from the audit | ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ Other matters if any, significant to the oversight of the financial reporting process | Audit results report |

# Appendix B

## Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▸ Whether the events or conditions constitute a material uncertainty<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The adequacy of related disclosures in the financial statements | Audit results report |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Corrected misstatements that are significant<br>▸ Material misstatements corrected by management | Audit results report |
| Fraud | ▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ A discussion of any other matters related to fraud | Audit results report |
| Related parties | ▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>▸ Non-disclosure by management<br>▸ Inappropriate authorisation and approval of transactions<br>▸ Disagreement over disclosures<br>▸ Non-compliance with laws and regulations<br>▸ Difficulty in identifying the party that ultimately controls the entity | Audit results report |

# Appendix B

## Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▶ The principal threats<br>▶ Safeguards adopted and their effectiveness<br>▶ An overall assessment of threats and safeguards<br>▶ Information about the general policies and process within the firm to maintain objectivity and independence | Audit Planning Report and Audit Results Report |
| External confirmations | ▶ Management's refusal for us to request confirmations<br>▶ Inability to obtain relevant and reliable audit evidence from other procedures | Audit results report |
| Consideration of laws and regulations | ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off<br>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of | Audit results report |
| Internal controls | ▶ Significant deficiencies in internal controls identified during the audit | Management letter and Audit Results Report |

# Appendix B

## Required communications with the Audit Committee (continued)

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Representations | Written representations we are requesting from management and/or those charged with governance | Audit results report |
| Material inconsistencies and misstatements | Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report |
| Auditors report | ▸ Key audit matters that we will include in our auditor's report<br>▸ Any circumstances identified that affect the form and content of our auditor's report | Audit results report |
| Fee Reporting | ▸ Breakdown of fee information when the audit plan is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit planning report<br>Audit results report |

# Additional audit information

**Other required procedures during the course of the audit**

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

| | |
|---|---|
| **Our responsibilities required by auditing standards** | ▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.<br>▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.<br>▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.<br>▸ Concluding on the appropriateness of management's use of the going concern basis of accounting.<br>▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.<br>▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Lee Valley Regional Park Authority to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and<br>▸ Maintaining auditor independence. |

# Additional audit information (continued)

**Purpose and evaluation of materiality**

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Authority's financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.