

 <p>Lee Valley Regional Park Authority</p> <p>LEE VALLEY REGIONAL PARK AUTHORITY</p> <p>AUDIT COMMITTEE</p> <p>22 FEBRUARY 2018 AT 1:00PM</p>	<p><u>Agenda Item No:</u></p> <p>6</p> <p><u>Report No:</u></p> <p>AUD/84/18</p>
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EXTERNAL AUDIT 2017/18 - AUDIT PLAN

Presented by the Director of Finance & Resources

SUMMARY

As part of the 2017/18 audit, the Authority's external auditors (Ernst & Young) undertake an interim audit and produce a plan to cover the end of year audit 2017/18. Sections 1 and 2 of this plan are attached at appendix A to this report with a full plan available in the committee office or available electronically if Members require.

The auditor's intention is to undertake a fully substantive audit which will review and report on the financial statements as well as arrangements for securing economy, efficiency and effectiveness in the use of resources. As in previous years it will include a review the work of the internal auditors, including audit plans and reports, together with reports from any other work completed in the year. The plan also covers other mandatory audit procedures required by auditing standards as well as the financial statements and value for money risks.

Materiality is assessed in two ways:

- Planning materiality has been set at £4.4m, which represents 2% of the prior year total non-current assets; and
- as £358,000 based on 2% of the Authority's gross revenue income/expenditure and the auditor will communicate uncorrected audit misstatements greater than £220,000 to this committee.

The auditor has changed the basis this year to reflect 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. They have therefore based materiality on total non-current assets rather than the gross cost of services.

The plan also highlights any potential risks for producing the financial statements and sets out the auditor's process, strategy and timetable.

The Plan sets out the fee for 2017/18 (£18,619) and this is the same as 2016/17.

RECOMMENDATIONS

- Members Note:
- (1) the External Auditors' Audit Plan for 2017/18 (Sections 1 and 2) attached at Appendix A to the report; and
 - (2) the proposed annual audit fee for 2017/18 as set out in the financial implications of this report.

BACKGROUND

- 1 The role of external audit is to provide an annual independent assessment of how the Authority is discharging its responsibility for the stewardship of public money. The Auditors' conclusions are reported in their annual Audit Results Report later in the year following the Final Accounts Audit in the Summer. This Plan summarises their work to date and highlights risks which may arise during the course of the annual audit.
- 2 Preceding this, preliminary audit work is carried out to assess the Authority's arrangements for ensuring the proper conduct of its financial affairs. The auditor has provided for this within their plan.

AUDIT PLAN 2017/18

- 3 Sections 1 and 2 of the Audit Plan for 2017/18 is attached at Appendix A to this report - a full plan is available in the committee office and is available electronically if Members require. The Auditors will commence their interim work at the beginning of April and this will be reported as part of the annual Audit Results Report.
- 4 The proposed fee for 2017/18 is £18,619 which is the same as the 2016/17 fee. However, the proposed fee may not cover for the specific audit risks identified in section 2 (page 2) of the plan which highlights potential risks that may impact upon the completion of the annual audit.

ENVIRONMENTAL IMPLICATIONS

- 5 There are no environmental implications arising directly from the recommendations in this report.

EQUALITY IMPLICATIONS

- 6 There are no equality implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 7 The fee to be charged by the External Auditor in 2017/18 is £18,619 and is the same as that set for 2016/17.
- 8 This fee estimate does not include for any additional costs resulting from the specific audit risks identified in section 2 of the plan. Officers believe the existing budget for the External Audit should be sufficient unless a material additional risk arises and therefore impacts upon the standard fee. Members will be kept apprised of this during the Audit and any potential variation will be

reported to this Committee and the Executive Committee as part of the regular revenue budget monitoring.

HUMAN RESOURCE IMPLICATIONS

- 9 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

- 10 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 12 There are no risk management implications arising directly from the recommendations in this report although the audit plan does highlight financial statement risks that potentially could impact on the Audit and subsequently impact on the final fee.

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PREVIOUS COMMITTEE REPORTS

Audit Committee	AUD/83/17	External Auditor's Audit Results Report – 2016/17 Accounts	21 September 2017
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APPENDICES ATTACHED

Appendix A	Sections 1 and 2 of the Audit Plan 2017/18
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**Lee Valley Regional
Park Authority
Audit planning report**

Year ended 31 March 2018

22 February 2018



Building a better
working world

Private and Confidential

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

22 February 2018

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 2017/18 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 22 February 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson.

For and on behalf of Ernst & Young LLP

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	Audit team	Audit timeline	Independence	Appendices					

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). 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 (updated February 2017)" 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.



Overview of our 2017/18 audit strategy

01



Overview of our 2017/18 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- Management override	Significant Risk/Fraud	No change in risk or focus	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. 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
Valuation of Fixed Assets	Inherent risk	No change in risk of focus	Property, plant and equipment (PPE) represents a significant balance 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 Authority's asset base is significant and 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. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.
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. 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. 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.

Overview of our 2017/18 audit strategy

Materiality



Planning materiality has been set at £4.4m, which represents 2% of the prior year total non current assets

Performance materiality has been set at £3.3m, which represents 75% of materiality.

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement) greater than £220k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

We have set specific a materiality of £0.358m 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.

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 not identified any significant risks to our value for money conclusion.

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 2018 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 changes

Key changes to our team are summarised below

Pamela will be taking over the role of Manager from Stephen Bladen. Pamela has extensive experience managing the audits of local authorities in the UK as well as in South Africa.



02 Audit risks





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.

Risk of management override

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.

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. These accounts had the following balances in the 2016/17 financial statements:

Capital Additions : £2.69m
Service Expenditure : £19.24m

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.



Audit risks

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?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded 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 PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

Pension Liability Valuation

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.

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 2017 this totalled £31.2 million.

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.

What will we do?

We will:

- ▶ Consider 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 used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider 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 have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements,

We will:

- ▶ 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;
- ▶ 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
- ▶ Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.