



South Downs National Park Authority

Audit progress report and sector updates

November 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and, in particular, we cannot be held responsible to you for reporting all the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Introduction

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This paper provides the Policy and Resources Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a series of sector updates in respect of these emerging issues which the Committee may wish to consider.

Members of the Policy and Resources Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

<https://www.grantthornton.co.uk/industries/public-sector/local-government/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at November 2024

Financial Statements Audit

Final accounts audit work commenced at the end of September 2024. Our initial focus was on completing the planning tasks which we were unable to complete earlier in the year. We have made good progress towards this, and the planning work is now substantially complete.

Our final accounts work has started well. As at the 7th November 2024 we have sent out most of the samples to management to gather the required evidence. The samples still to be finalised at this stage were:

- Cut off payments made (Bank)
- Group income and expenditure samples

To date we have not identified any significant issues or misstatements in the work completed. Our work on the significant risk areas is in progress and further details are included on the following slides.

We have recently queried the classification of section 106 amounts which currently are included within the creditor balance in the balance sheet. Our view is that these should be in grants received in advance given that there are return obligations. The balance is material and would need to be disclosed as such in line with the CIPFA code. This is a classification issue only and will not impact the balance sheet if corrected.

In addition, the creditors balance includes income received from the Trust in which we have asked management to demonstrate that they are true creditors. On the face of it, our view is that they do not appear to be creditors and rather should be income recognised in the year. We will provide a further update on this area in our audit findings report.

We would like to take the opportunity to thank the finance team for all their efforts so far in supporting the audit process.

Other Audit Findings:

To date we have identified one minor disclosure issue in relation to cash where the titles for investments and cash equivalents were the wrong way around in the financial instruments note. Management has agreed to correct for this.

Our initial review of the accounts has identified a number of minor issues such as formatting errors in the accounts. These have been raised with management.

No other issues have been identified to date.

Value for Money

Our work on VFM began in October 2024 and to date there are no findings to report. We have held initial discussions with key members of management in order to review the general arrangements around VFM. Full details on the VFM findings will be reported in our auditor's annual report which will be presented at the February 2025 committee.

Audit Deliverables

Below are some of the audit deliverables planned for 2023/24.

2023/24 Deliverables	Planned Date*	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2023/24 financial statements.</p>	June 2024	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit and Standards Committee.</p>	February 2025	In Progress
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	February 2025	In Progress
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>	February 2025	In Progress

Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary	Relevant to
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design and implementation of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness <p>Our work has not identified any issues in respect of management override of controls to date. In total we have selected 22 journals to test using a risk-based approach. Results of our testing will be reported at the November committee.</p>	<p>Authority</p>

Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to
<p>Closing Valuation of land and buildings</p> <p>The valuation of land and buildings is a key accounting estimate that is sensitive to changes in assumptions and market considerations and represents a significant estimate by management in the financial statements. Therefore, we have identified this as a significant risk requiring special audit consideration.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work. evaluated the competence, capabilities and objectivity of the valuation expert. written to the valuer to confirm the basis on which the valuations were carried out. challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authorities asset register, revaluation reserve, and Statement of Comprehensive Income. evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. for all assets not formally revalued or revalued on a desktop/indexation basis only, evaluate the judgement made by management or others in determination of current value of these assets. <p>Our procedures have to date not identified any issues to bring to your attention. Further detail will be reported at the February Committee.</p>	<p>Authority</p>

Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to
<p>Valuation of the pension fund net Asset/liability The Authority's pension fund net asset/liability, as reflected in its balance sheet, represents a significant estimate in the financial statements</p>	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of West Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Our audit work to date has not identified any significant issues with respect to the valuation of the pension fund net asset/liability.</p> <p>In addition to that reported above, we have identified that an asset ceiling has been applied in line with IFRIC14. We will therefore review the actuaries IFRIC14 assessment in line with emerging national guidance which came out in September 2024. Details of our findings will be reported in our AFR at the February Committee.</p>	<p>Authority</p>

Sector Update

The following slides contain some useful information and reminders regarding the up-and-coming implementation of IFRS16. Please also refer to our previous update report which went to the September Committee for some useful articles from the sector.

IFRS 16 - Leases

Lessee accounting up to 31 March 2024

Until April 2024, when a local authority gained the use of an asset under a lease agreement, it had to determine whether it was a finance lease or an operating lease. The distinction was based on which entity had substantially all the risks and rewards of ownership. It was important because finance leased assets were deemed capital and accounted for on the authority's balance sheet, whereas operating lease costs were charged to expenditure over the life of the lease.

Lessee accounting from 1 April 2024

From the adoption by local government of IFRS 16 leases on 1 April 2024, the distinction between operating and finance leases for lessees has been removed. Now all leases, apart from those that are deemed low value or short term, are accounted for on balance sheet by lessees.

Asset and liability recognised

Under IFRS 16, lessees recognise their right to use an asset and also a liability for the present value of the total amount they expect to pay over the period of the agreement. Initially, the right of use asset and the liability are usually recognised at the same value, unless there have been any relevant payments before the start of the lease.

After initial recognition, the right of use asset is valued the same way as owned assets of a similar type and the liability is increased for interest due or changes in expected payments due to the application of a rate or index such as RPI, and decreased for amounts paid.

Public sector adaptation

In the public sector, the definition of a lease has been extended to include the use of assets for which little or no consideration is paid, often called "peppercorn" rentals. This is one instance where the right of use asset and associated liability are not initially recognised at the same value. For peppercorn rentals, the right of use assets are initially recognised at market value and any difference between that and the present value of expected payments is accounted for as income, similar to the treatment of donated assets.

Judgements required

Most of the information needed to determine the appropriate figures for the accounts will come from the lease agreement. However, sometimes judgements may need to be made by management. Such judgements may include:

- determining what is deemed to be a low value lease. This is based on the value of the underlying asset when new and is likely to be the same as the authority's threshold for capitalising owned assets.
- determining whether an option to terminate or extend the lease will be exercised. This is important as it affects the lease term and subsequently the calculation of the lease liability based on the expected payments over the lease term
- the valuation of the right of use asset after recognition. An expert valuer may be required to support management in this.

Lessor accounting

IFRS 16 has preserved the distinction between finance and operating lease accounting for lessors. The key things that lessors need to be aware of are:

- assets leased out for a peppercorn rental should be treated as finance leases if they have, in substance, been donated to the operator
- if the asset is sub-let, the consideration of whether the sub-lease is a finance lease or an operating lease takes account of the value and duration of the head lease rather than the value and life of the underlying asset

IFRS 16 - leases

Questions to consider

Questions for local authorities to ask themselves include:

- How have you gained assurance on completeness, that you have identified all your leases including those for a peppercorn rent?
- Have you set your threshold for low value leases?
- How have you identified all options to terminate or extend existing leases and assessed the lease term on the basis of the likelihood you will exercise them?
- Have you reconciled your operating lease commitments as disclosed in your 31 March 2023 accounts under IAS 17 to your lease liability under IFRS 16 on 1 April 2024?
- How have you gained assurance that right of use assets are carried at the appropriate value at the balance sheet date?
- If you are an intermediate lessor, have you reassessed whether the leases out are finance or operating leases with reference to the terms of the head lease?
- Have you updated your systems to ensure that the budgetary and accounting impact of all leases is identified in a timely and effective manner.



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