

Report No. 13/16
Audit & Corporate Services Review Committee

REPORT OF THE WALES AUDIT OFFICE

SUBJECT: ISA260 REPORT TO THOSE CHARGED WITH GOVERNANCE

A presentation will be made by the Wales Audit Office on its ISA260 Report: Communication Concerning Financial Statements to those Charged with Governance.

RECOMMENDATIONS:

Members are invited to consider and accept the ISA260 Report from the Wales Audit Office.

Background documents:

- ISA260 Report – 2015/16 Audit

For further information on this report, please contact Mr Richard Griffiths (Chief Financial Officer)

Audit of Financial Statements Report

Pembrokeshire Coast National Park Authority

Audit year: 2015-16

Issued: July 2016

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Status of report

This document has been prepared for the internal use of Pembrokeshire Coast National Park Authority as part of work performed in accordance with the statutory functions.

No responsibility is taken by the Auditor General or the staff of the Wales Audit Office in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

The team who delivered the work comprised Richard Harries, Deryck Evans and Julie Owens.

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Summary report

Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Pembrokeshire Coast National Park Authority (the Authority) at 31 March 2016 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative level at which we judge such misstatements to be material for the Authority was £128,000 for income and expenditure items and working capital balances. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of the Authority, for 2015-16 that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 16 June 2016 (two weeks before the statutory deadline) and started the audit as planned on 20 June 2016. We have now substantially completed the audit work. There are some minor areas to finalise but we anticipate these being fully complete in the week prior to the Authority meeting on 10 August 2016.
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Finance Manager.

Proposed audit report

8. **It is the Auditor General's intention to issue an unqualified audit report on the financial statements** once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#). **The audit report and certificate will be issued after the date appointed for the exercise of electors' rights to ask questions of or make objections to the Auditor General.**
9. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

10. There are no ‘material’ misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

11. There was one ‘material’ and a number of ‘non-material’ disclosure amendments that have been corrected by management. We wish to draw these to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations below:

Summary of corrected misstatements

Value of correction	Nature of correction	Reason for correction
£163,000	Property, Plant and Equipment / Revaluations Decrease in the value of property, plant and equipment and also revaluations charged to the Comprehensive Income and Expenditure Statement of £163,000.	To correct an error in a prior period's valuation exercise as the valuer had included finance costs when valuing assets held at 'Depreciated Replacement Cost' in contravention to the Code guidance
Various	Other presentational corrections We have agreed several presentational amendments to the financial statements and the supporting narrative, to aid the understanding of the financial statements and to correct some typographical and rounding errors.	To ensure consistency between the statement of accounts and the supporting notes and to ensure presentational accuracy in line with International Financial Reporting Standards.

Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There are no significant issues arising in these areas this year and our conclusions are set out below:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.**

We found the information provided to be relevant, reliable, comparable, material and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear. The accounts produced for audit were of a high standard and this allowed the audit to progress smoothly.

- **We did not encounter any significant difficulties during the audit.**
We received information in a timely and helpful manner and were not restricted in our work. The quality of working papers provided and finance officers co-operation throughout the audit continues to be of a high standard.
- **There are no matters discussed and corresponded upon with management which we need to report to you.**
- **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- **We did not identify any weaknesses in your internal controls which we consider to be significant.**
- **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Independence and objectivity

13. As part of the finalisation process, we are required to provide you with representations concerning our independence.
14. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and the Authority that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

(Audited body's letterhead)

Mr Anthony Barrett
Assistant Auditor General
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ
[Date]

Representations regarding the 2015/16 financial statements

This letter is provided in connection with your audit of the financial statements of Pembrokeshire Coast National Park Authority for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness and their proper preparation. We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and Code of Practice on Local Authority Accounting in the United Kingdom 2015/16; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

- full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

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- additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
 - the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
 - our knowledge of fraud or suspected fraud that we are aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
 - our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements;
 - the identity of all related parties and all the related party relationships and transactions of which we are aware;

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.

Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Authority on 10 August 2016.

Signed by:

[Officer who signs on behalf of management] [Officer or Member who signs on behalf of those charged with governance]

Date:

Signed by:

Date:

Appendix 2

Audit report of the Auditor General to the Pembrokeshire Coast National Park Authority

I have audited the accounting statements and related notes of Pembrokeshire Coast National Park Authority for the year ended 31 March 2016 under the Public Audit (Wales) Act 2004.

Pembrokeshire Coast National Park Authority's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page xx, the responsible financial officer is responsible for the preparation of the statement of accounts which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to Pembrokeshire Coast National Park Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Pembrokeshire Coast National Park Authority

In my opinion the accounting statements and related notes:

-
- give a true and fair view of the financial position of Pembrokeshire Coast National Park Authority as at 31 March 2016 and of its income and expenditure for the year then ended; and
 - have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In my opinion, the information contained in the Narrative Report for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Pembrokeshire Coast National Park Authority in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

Anthony Barrett
Assistant Auditor General
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Date:

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Reference	PCNPA15-16/TCWG
Date	22/07/2016
Pages	1 of 9

Dear Cllr James and Tegryn

Pembrokeshire Coast National Park Authority 2015/16

Audit enquires to those charged with governance and management

As you will be aware I am required to conduct my financial audit in accordance with the requirements set out in International Standards on Auditing (ISAs). As part of the requirements of the ISAs I am writing to you to formally seek your documented consideration and understanding on a number of governance areas that impact on my audit of your financial statements. These considerations are relevant to both the Pembrokeshire Coast National Park Authority's management and 'those charged with governance' (the Authority).

I have set out below four question on which I am seeking your views.

1. What do you see as key risks of fraud at Pembrokeshire Coast National Park Authority and do management keep you adequately informed? Are you aware of any instances of fraud?
2. Do you have any concerns about non-compliance with laws and regulations? Do management keep you adequately informed about any non-compliance and what in your view are the main risks?
3. Are you aware of any potential litigation that could affect the financial statements? Do management keep you updated sufficiently on such issues?
4. Are you aware of the processes to identify any related party transactions / relationships at Pembrokeshire Coast National Park Authority and are you aware of any key parties / transactions which should be disclosed in the financial statements?

The information you provide will inform our understanding of Pembrokeshire Coast National Park Authority and its business processes and support our work in providing an audit opinion on your 2015/16 financial statements.

I would be grateful if you could complete the attached table in Appendix A, which should be formally considered and communicated to us on behalf of both management and those charged with governance by 11 August 2016. In the meantime, if you have queries, please contact Deryck Evans on 02920 320559.

Yours sincerely

Richard Harries

Engagement Lead

Appendix A

International Standard for Auditing (UK and Ireland) 240 – The auditor's responsibilities relating to fraud in an audit of financial statements

Background

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which for the Pembrokeshire Coast National Park Authority is the Audit and Corporate Services Review Committee. This includes fraud that could impact on the accuracy of the annual accounts. The ISA requires us, as external auditors, to obtain an understanding of how the Authority exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is 'fraud' in the context of the ISA?

The ISA views fraud as either:

- the intentional misappropriation of assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from both management and the Authority:

Enquiries of management

Question	Response
1. What is management's assessment of the risk that the financial statements may be materially misstated due to fraud and what are the principle reasons?	
2. How can management assure the Authority that it has not been inappropriately influenced by external pressures?	
3. Are management aware of any organisational pressure to meet revenue and capital budgets or other financial constraints?	

Enquiries of management

4. What processes are employed to identify and respond to the risks of fraud more generally and specific risks of misstatement in the financial statements?
5. How has management communicated expectations of ethical governance and standards of conduct and behaviour to all relevant parties, and when?
6. What arrangements are in place to report about fraud to those charged with governance?

Enquiries of the Authority

Question	Response
1. How does the Authority, in its role as those charged with governance, exercise oversight of management's processes for identifying and responding to the risks of fraud within the Authority and the internal control that management has established to mitigate those risks?	
2. Has the Authority knowledge of any actual, suspected or alleged fraud since 1 April 2015?	
Question	Response
3. Has the Authority any suspicion that fraud may be occurring within the organisation?	
4. Is the Authority satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details. If 'no' what are the risk areas?	
5. How do you encourage staff to report their concerns about fraud and what concerns about fraud are staff expected to report?	
6. From a fraud and corruption perspective, what are considered by the Authority to be high risk posts within the organisation and how are the risks relating to these posts identified, assessed and managed?	

Enquiries of the Authority

- | | |
|---|--|
| 7. Is the Authority aware of any related party relationships or transactions that could give rise to instances of fraud and how does it mitigate the risks associated with fraud related to related party relationships and transactions? | |
| 8. Is the Authority aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading? | |
| 9. Is the Authority aware of any organisational, or management pressure to meet revenue and capital budgets or other financial constraints? | |

International Standard for Auditing (UK and Ireland) 250 – Consideration of laws and regulations in an audit of financial statements Background

Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non compliance rests with management and 'those charged with governance', which for the Pembrokeshire Coast National Park Authority is the Authority. The ISA requires us, as external auditors, to obtain an understanding of how the Authority gains assurance that all relevant laws and regulations have been complied with.

What are we required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA 250. We are therefore making requests from both management and the Authority:

Enquiries of management	
Question	Response
1. How have you gained assurance that all relevant laws and regulations have been complied with?	
2. Are there any potential litigations or claims that would affect the financial statements?	

Enquiries of the Authority	
Question	Response
1. How does the Authority, in its role as those charged with governance, exercise oversight of management's processes to ensure that all relevant laws and regulations have been complied with?	
2. Is the Authority aware of any non-compliance with relevant laws and regulations?	
3. If there have been instances of non-compliance what are they, and what oversight has the Authority had to ensure that action taken by management to address and gaps in control?	

International Standard for Auditing (UK and Ireland) 550 – Related parties

Background

The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. For example:

- Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
- Information systems may be ineffective at identifying or summarizing transactions and outstanding balances between an entity and its related parties.
- Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. An understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (UK and Ireland) 240, because fraud may be more easily committed through related parties.

What are we required to do?

Where the applicable financial reporting framework establishes requirements for related parties, the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework. We are therefore making requests from both management and the Authority:

Enquiries of management	
Question	Response
<ol style="list-style-type: none"> 1. What controls are in place to identify, authorise, approve, account for and disclose related party transactions and relationships? 	
<ol style="list-style-type: none"> 2. Confirm that you have: <ul style="list-style-type: none"> disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which you are aware; and appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework. 	
Enquiries of the Authority	
Question	Response
<ol style="list-style-type: none"> 1. How does the Authority, in its role as those charged with governance, exercise oversight of management's processes to identify, authorise, approve, account for and disclose related party transaction sand relationships? 	