

Audit Strategy Memorandum

Yorkshire Dales National Park Authority – Year ending 31 March 2024

30 October 2024

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Members of the Audit and Review Committee
Yorkshire Dales National Park Authority
Yoredale
Bainbridge
North Yorkshire
DL8 3EL

30 October 2024

Forvis Mazars
The Corner
Bank Chambers
26 Mosley Street
Newcastle Upon Tyne
NE1 1DF

Dear Members of the Audit and Review Committee

Audit Strategy Memorandum – Year Ending 31 March 2024

We are delighted to have been appointed as your new external auditor, and we are pleased to present our Audit Strategy Memorandum for Yorkshire Dales National Park Authority for the year ending 31 March 2024.

The purpose of this document is to summarise our audit approach and to explain how the statutory backstop arrangements introduced by the Accounts and Audit (Amendment) Regulations 2024, will impact on the completion of our work. We highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and forthcoming accounting issues and other issues that may be of interest to you.

The auditor of your prior year accounts now intends to backstop the 2022/23 audit of the Authority's financial statements and issue a disclaimed opinion. As this will provide us with no audit assurance for the prior year financial statements, and the backstop for 2023/24 has been brought forward by 3 months to 28 February 2025, there is likely to be insufficient time to deliver audit procedures for 2023/24 that would give us sufficient appropriate evidence for an unmodified opinion. Consequently, the most likely outcome is that we will also have to issue a disclaimed opinion on the 2023/24 financial statements.

However, we will seek to rebuild the assurance needed to issue an unmodified opinion if resources and circumstances allow, including the ability of management to support this process. At this stage, we are unable to say whether this will be possible.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me on 07896 684 771.

Yours faithfully,

Gavin Barker

Gavin Barker

Forvis Mazars LLP

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This document is to be regarded as confidential to Yorkshire Dales National Park Authority. It has been prepared for the sole use of the Yorkshire Dales National Park Authority as those charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

01

Engagement and responsibilities summary

Engagement and responsibilities summary

Overview of engagement / Impact of the Backstop dates

We are delighted to have been appointed as your new external auditor from the 2023/24 audit, and we are pleased to present our Audit Strategy Memorandum for Yorkshire Dales National Park Authority for the year ending 31 March 2024.

We are appointed to perform the external audit of Yorkshire Dales National Park Authority (the Authority) for the year ended 31 March 2024. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: **https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/**. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined overleaf.

At the time of presenting our Audit Strategy Memorandum, a series of active consultations that were started on 8 February 2024 have just been concluded. On 9 September 2024 a new statutory instrument was laid before Parliament to enact a series of 'backstop' dates for the completion of audits for prior and future years (Statutory Instrument 2024, No 703), and on the same date, the National Audit Office also laid a new Code of Audit Practice before Parliament, to ensure that the backstop and other matters are reflected in the requirements placed upon auditors. Further details can be found on the Financial Reporting Authority's **website**.

The aim is to reset the local audit system, clear the outstanding backlog and recover the system over a number of years.

The backstop dates are:

- Financial years up-to-and-including 2022/23: 13 December 2024 (previously consulted on a date of 30 September 2024)
- Financial year 2023/24: 28 February 2025 (previously 31 May 2025)
- Financial year 2024/25: 27 February 2026 (previously 31 March 2026)
- Financial year 2025/26: 31 January 2027
- Financial year 2026/27: 30 November 2027
- Financial year 2027/28: 30 November 2028

To meet the backstop dates, auditors will be required to issue an audit opinion based on the work they have been able to complete by the backstop date relating to the audit year in question. The Authority tis now required to publish its audited 2023/24 financial statements and accompanying information on or before 28 February 2025. In accordance with the Code, we are required to provide our audit report on those financial statements in sufficient time to enable the Authority to meet these responsibilities, whether the audit is completed or not. As there is a large backlog of outstanding audits, the proposed backstop dates are likely to result in significant numbers of modifications or disclaimers of the audit opinion.

We have engaged regularly with the Head of Finance and her team on the backstop measures since they were first proposed earlier this year. Following publication of the final backstop dates we have considered the impact on our ability to deliver a complete audit of the Authority's accounts for 2023/24 that would enable the Authority to publish audited accounts by the new statutory deadlines.

The auditor of your prior year accounts now intends to backstop the 2022/23 audit of the Authority's financial statements and issue a disclaimed opinion. As this will provide us with no audit assurance for the prior year financial statements, and the backstop for 2023/24 has been brought forward by 3 months to 28 February 2025, there is unlikely to be sufficient time to deliver audit procedures for 2023/24 that would give us sufficient appropriate evidence for an unmodified opinion. Consequently, the most likely outcome is that we will also have to issue a disclaimed opinion on the 2023/24 financial statements.

However, we will seek to rebuild the assurance needed to issue an unmodified opinion if resources and circumstances allow, including the ability of management to support this process. At this stage, we are unable to say whether this will be possible as we are awaiting key guidance in relation to the processes that are needed, and there are likely to be difficult decisions ahead for our wider allocation of resources to individual audits as we approach the backstop dates. Rebuilding assurance is likely to mean that we will need to test the 2022/23 accounts as well as the 2023/24 financial statements. If we do undertake this additional work, there would be a considerable increase in fee for this work. We will keep management appraised of these matters as we complete our work.

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Engagement and responsibilities summary

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Authority as Those Charged With Governance, of their responsibilities.

The Chief Financial Officer is responsible for the assessment of whether is it appropriate for the Authority to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

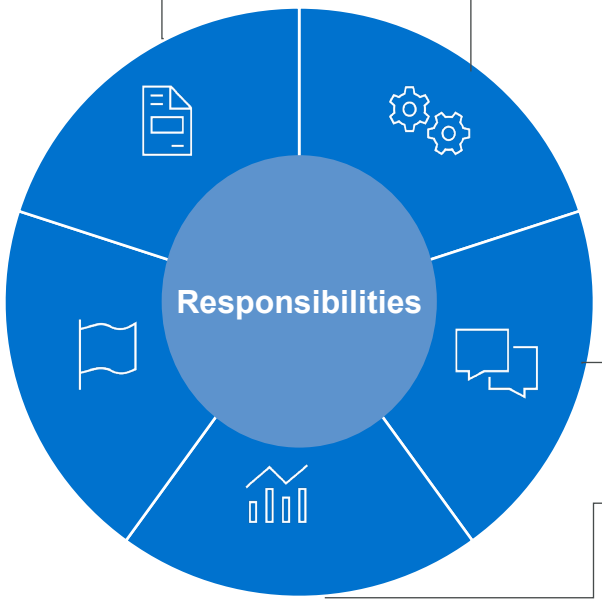
a) whether a material uncertainty related to going concern exists; and

b) consider the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal Audit, as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.



Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements 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.

Wider reporting and electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounts of the Authority and consider objections made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Value for money

We are also responsible for forming a view on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

02

Your audit engagement team

Your audit team

Gavin Barker

Director and Engagement Lead

Email: Gavin.Barker@mazars.co.uk

Telephone: 0191 383 6300 / Mobile: 07896 684 771

Gaurav Gandhi

Engagement Manager

Email: Gaurav.Gandhi@mazars.co.uk

Telephone: 0113 394 7042 / Mobile: 07581 015 459

Mary Anane

Team Lead

Email: Mary.Anane@mazars.co.uk

Telephone: 0113 394 5372 / Mobile: 07815 017 230

03

Audit scope, approach, and timeline

Audit scope, approach, and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

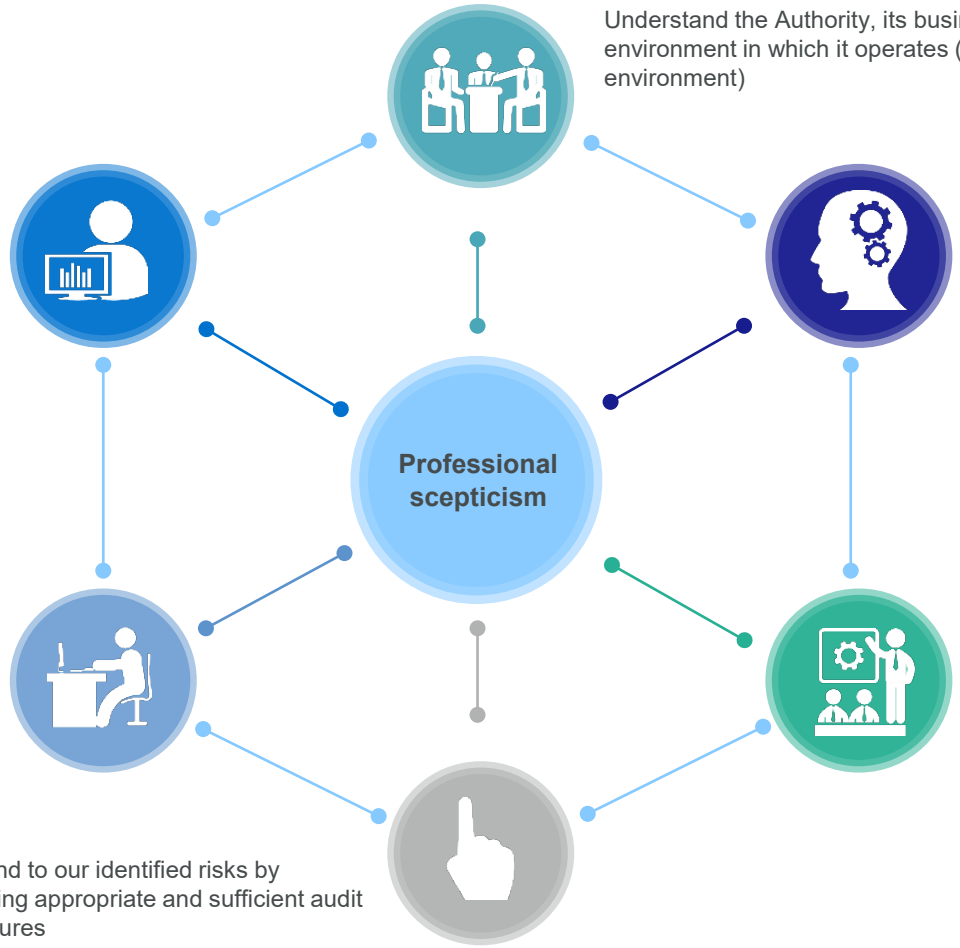
Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

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Audit scope, approach, and timeline

Risk-based approach



Audit scope, approach, and timeline

Audit timeline

Planning and risk assessment
October - December 2024

- Planning our work and developing our understanding of the Authority
- Initial opinion and value for money risk assessments
- Risk identification and assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Interim
December 2024 – January 2025

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary
- Reviewing draft financial statements
- Audit Sampling

Fieldwork
January - February 2025

- Delivering our audit strategy starting with significant risks and high-risk areas including detailed testing of transactions, account balances and disclosures
- Detailed work to examine and assess arrangements in relation to any significant risks relating to the value for money conclusion
- Communicating progress and issues
- Clearance meeting

Completion
January - February 2025

- Final review and disclosure checklist of financial statements
- Final director review
- Agreeing content of letter of representation
- Reporting to the Authority
- Reviewing subsequent events
- Signing the independent auditor's report

Audit scope, approach, and timeline

Management's experts and our experts

Management makes use of experts in specific areas when preparing the Authority's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of Account	Management's expert	Our expert
Pensions: Defined benefit pension assets and liabilities	AON, actuary to the North Yorkshire Pension Fund	National Audit Office (NAO) report commissioned from PWC, assessing the work of actuaries in relation to the Local Government Pension Scheme (LGPS)
Property, plant and equipment valuation	External valuer – Align Property Partners	We do not plan to engage an expert for valuations; we will use our internal valuation team if necessary

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services.

We have not identified any service organisations relevant to the audit of the Authority.

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Significant risks and other key judgement areas

Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition.

Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Authority. We have summarised our audit response to these risks on the next page.



Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Authority.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	●	●	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.

Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	**Net defined benefit pension liability or asset** The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	○	●	●	In relation to the valuation of the Authority's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Yorkshire Dales National Park Authority's Actuary; • Liaise with the auditors of the North Yorkshire Pension Fund to obtain confirmation that the controls are designed and implemented appropriately. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • Review the appropriateness of the Pension Liability or Asset valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; • Agree the data in the IAS 19 valuation reports provided by the Funds' Actuary for accounting purposes to the pension accounting entries and disclosures in the Authority's financial statements; and • Ensure all required disclosures are reflected in the accounts and relevant notes.

Significant risks and other key judgement areas

Significant risks

	Description	Fraud	Error	Judgement	Planned response
3	**Valuation of property, plant and equipment and heritage assets** The financial statements contain material entries on the balance sheet as well as material disclosure notes in relation to the Authority's holding of Property, Plant and Equipment (PPE) and heritage assets. The Authority employs a valuation expert to provide information on valuations, however there remains a high degree of estimation uncertainty associated with the (re)valuations of PPE and heritage assets due to the significant judgements and number of variables involved.	○	●	●	We will evaluate the design and implementation of any controls which mitigate the risk. This includes liaising with management to update our understanding on the approach taken by the Authority in its valuation of land and buildings and heritage assets. We will: • Assess the scope and terms of engagement with the Valuer; • Assess the competence, skills and objectivity of the Valuer; • Assess how management use the Valuer's report to value land and buildings included in the financial statements; • Test the accuracy of the data used in valuations; • Challenge the Authority's and Valuer's assumptions and judgements applied in the valuations; • Review valuation methodologies used, including the appropriateness of the valuation basis; • Consider the reasonableness of the valuation by comparing the valuation output with market intelligence; and • Ensure all required disclosures are reflected in the accounts and relevant notes.

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Significant risks and other key judgement areas

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether Those Charged with Governance has knowledge of, the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- We plan to do this by formal letter to the Chair of the Audit and Review Committee which we will obtain prior to completing our audit.

Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters to the Authority which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

Internal audit function

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

We assess the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control.

At the planning stage we do not expect to specifically rely on the work of the internal audit function for the purpose of our audit.

Nonetheless, we will obtain a copy of the reports issued by internal audit relating to the financial period under audit to determine whether any findings will have an impact on our risk assessment and planned audit procedures.

05

Value for money arrangements

Value for money arrangements

The framework for value for money work

We are required to form a view as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our view and sets out the overall criterion and sub-criteria that we are required to consider.

Value for money (VFM) work is currently undertaken under the NAO's 2020 Code of Audit Practice (the Code). Our responsibility remains to be satisfied that the Authority has proper arrangements in place and to report in the audit report and/or the audit completion certificate where we identify significant weaknesses in arrangements. Separately we provide a commentary on the Authority's arrangements in the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Authority plans and manages its resources to ensure it can continue to deliver its services;
2. **Governance** – how the Authority ensures that it makes informed decisions and properly manages its risks; and
3. **Improving economy, efficiency and effectiveness** – how the Authority uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Authority's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Authority and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Authority's arrangements for each specified reporting criteria. Relevant information sources include: • NAO guidance and supporting information; • information from internal and external sources including regulators; • knowledge from previous audits and other audit work undertaken in the year; and • interviews and discussions with officers and Members.
Additional risk-based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • significant weaknesses identified and our recommendations for improvement; and • emerging issues or other matters that do not represent significant weaknesses but still require attention from the Authority.

Value for money arrangements

Identified risks of significant weaknesses in arrangements

The NAO's guidance requires us to carry out work at the planning stage to understand the Authority's arrangements and to identify risks that significant weaknesses in arrangements may exist.

We note that the previous auditor has not yet reported their findings and conclusions in relation to the 2022/23 audit. As this is our first year as your external auditor, we have requested a self-assessment by management against the reporting criteria. This has provided us with a good starting point for our own VFM work and it will give us an insight into your own views on the arrangements you have in place. It will also ensure that we take anything into account that you believe is important for us to consider.

Our planning and risk assessment work is currently ongoing and we have not identified any risks of significant weaknesses to date. We will report any further identified risks, if applicable, to the Authority in due course.

06

Audit fees and other services

Audit fees and other services

Fees for audit and other services

The audit fees (exclusive of VAT) for the audit of Yorkshire Dales National Park Authority for the year ended 31 March 2024 are set out below. This is our first year as our auditor and the fees reflect the results of the national procurement exercise undertaken by Public Sector Audit Appointments (PSAA) Limited and to which the Authority was a party. As set out on page 5, we only envisage a divergence from the scale fee if we are able to begin the process of rebuilding assurance for the 2022/23 audit year which has not been completed by the previous auditor.

Area of Work	2023/24 Fee
Planned fee in respect of our work under the Code of audit Practice (Scale fee set by PSAA)	£42,529
Additional fees	-
Total Fees	**£42,529**

Fees for non-PSAA work

We do not anticipate undertaking any non-PSAA work for Yorkshire Dales National Park Authority. Before agreeing to undertake any additional work we consider whether there is any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in Section 7.

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07

Confirmation of our independence

Confirmation of our independence

	**Requirements**	We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.
	**Compliance**	We are not aware of any relationship between Forvis Mazars and the Authority that, in our professional judgement, may reasonably be thought to impair our independence. We are independent of the Authority and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.
	**Non-audit and Audit fees**	We have set out a summary any non-audit services provided by Forvis Mazars (with related fees) to the Authority in Section 6, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Forvis Mazars LLP and, when applicable, Forvis Mazars' member firms, are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with the Gavin Barker in the first instance.

Prior to the provision of any non-audit services, Gavin Barker will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: **Terms of Appointment from 2018/19 - PSAA**. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Materiality and misstatements

Materiality and misstatements

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Authority.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities, and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

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We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provide a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

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Materiality and misstatements

Materiality (continued)

We consider that gross expenditure at the surplus/ deficit on the provision of services level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 2% of gross expenditure at the surplus/ deficit on the provision of services level.

As set out in the table below, based on the 2023/24 draft financial statements we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £240k, and performance materiality to be in the region of £161k.

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

	2023/24 £'000s
Overall materiality	£240
Performance materiality	£120
Clearly trivial	£7
Specific materiality • Officers remuneration • Officers remuneration (bandings table) • Exit Packages (termination benefits)	 25% of total £5k Above £5k

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to the Authority and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £7k, based on 3% of overall materiality. If you have any queries about this, please raise these with Gavin Barker.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Authority as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover qualitative misstatements, including those relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Authority as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

Appendix A: Key communication points

We value communication with the Authority as a two way feedback process at the heart of our client service commitment. ISA (UK) 260 *Communication with Those Charged with Governance* and ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor's Annual Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit strategy memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

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Appendix A: Key communication points

ISA (UK) 260 *Communication with Those Charged with Governance*, ISA (UK) 265 *Communicating Deficiencies In Internal Control To Those Charged With Governance And Management* and other ISAs specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and Those Charged with Governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • Enquiries of the Authority to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Audit Completion Report Audit planning and clearance meetings

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Authority in the context of fulfilling their responsibilities.	Audit Completion Report

Appendix A: Key communication points

Required communication	Where addressed
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional and enquiry of the Authority into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Authority may be aware of.	Audit Completion Report
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements.	Audit Completion Report
Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm's System of Quality Management: • Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.) • Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality • Evaluate responses to identify and remediation process / control gaps We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here.	Audit Strategy Memorandum

Appendix B: Current year updates, forthcoming accounting & other issues

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 *Leases*: Lease Liability in Sale and Leaseback (Issued September 2022)

The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: ***Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback***

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: ***IASB publishes final amendments on supplier finance arrangements***

Appendix B: Current year updates, forthcoming accounting & other issues

New standards and amendments (continued)
Effective for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements: Disclosure of Accounting Policies (Issued February 2021)
The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates (Issued February 2021)
The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 Insurance Contracts (issued May 2017) and Amendments to IFRS 17 Insurance Contracts (Issued June 2020)
IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 Financial Instruments (Issued December 2021)
The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 Insurance Contracts has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

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Contact

Forvis Mazars

Gavin Barker
Audit Director
Tel: 07896 684 771
gavin.barker@mazars.co.uk

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