Item 3: ANNUAL ACCOUNTS AND AUDITORS’ REPORT TO THE AUTHORITY 2018/19

1. Purpose of Report
   a. Ernst & Young LLP are appointed independently by Public Sector Audit Appointments Ltd to audit the annual accounts and provide an overall assessment of the Authority’s systems for delivering good value from its resources.
   b. Ernst & Young LLP will present their report to the meeting and provide members of the Authority with an opportunity to discuss their findings and any significant implications.

2. Recommendations
   The Authority is recommended to:
   a. approve the audited Statement of Accounts 2018/19 (Appendix 1 to Item 3) and authorise the Chairman and Chief Executive (National Park Officer) to sign off the accounts for issue; and
   b. endorse the findings in the Audit Results Report for the year ended 31st March 2019 from Ernst & Young LLP (Appendix 2 to Item 3).

3. Implications
   a. Financial: The Annual Accounts agree to the 2018/19 Budget Outturn report presented to the Authority in Item 2 of this Agenda.
   b. Equalities: None

4. Background
   a. The draft annual accounts were authorised for issue by Hazel Fitzsimmons, Chief Financial Officer on the 31 May 2019 and published on the Authority’s website. The audit carried out by Ernst & Young LLP has now been concluded and the final Statement of Accounts 2018/19 are set out in Appendix 1 to Item 3.
   b. The detail of the accounts and the findings of the external auditors Ernst and Young were discussed at the Finance and Audit Group on 19th June 2019.
   c. The bottom-line outturn (an increase in the General Fund Balance of £318,900 shown on page 23 of the Financial Statements) is consistent with the surplus reported to the Authority in Item 2 of this Agenda.
   d. The split of this surplus across the following budget areas: Operating; Projects; Sill Project; Sill Business Plan and; Financing is shown in detail in Item 2 on this Agenda. This shows a surplus on the Authority's ongoing operational budget of £74,000, net project income of £258,300 and net Sill Business Plan expenditure of £13,400.
   e. The Comprehensive Income and Expenditure Statement on page 22 of the Financial Statements gives a breakdown of Income and Expenditure by service heading. In accordance with the CIPFA code of practice, Management and Administration costs are included under the 'Corporate Management and Administration' heading and are not allocated across service areas in the Financial Statements.
   f. The Sill was required to be valued once it became operational, and in July 2017, the land and buildings were valued at £8,500,000. This resulted in an impairment of £1,136,200 in the previous Financial Year, which was recognised as a loss in the Comprehensive Income and Expenditure Statement. Given the materiality of The Sill building, Lambert Smith Hampton were instructed to provide an updated valuation as at 31 March 2019 and they subsequently returned a value of £8,710,000. The increase in the valuation together with reversal of depreciation...
charged, resulted in a gain in the Comprehensive Income and Expenditure Statement of £764,800. These movements do not affect the useable reserves of the Authority.

g. The Annual accounts are extremely detailed and technical documents. Within them they contain valuable management information which all board members should consider as part of their oversight and governance role. The Authority receives financial results, including 5 year comparatives which are included in graph and table form at Appendix 3 to this report.

h. The key financial analysis shows:
   - For the first time in four years, income from other sources is lower than the Defra core grant, mainly as a result of the completion of capital grants for The Sill which have been received over the last three financial years.
   - Gross expenditure has decreased overall by £2.32M. £1.91M of this relates to a reduction of capital expenditure at The Sill as the building phase was completed in the last Financial Year. Revenue expenditure decreased by £406k and this was partly due to a decrease of £298k of costs on the Hadrian’s Cavalry project which completed at the beginning of the year.
   - Useable Reserves have increased from £676K to £1000K. This increase is made up of the outturn surplus of £319K and a £4.5K capital receipt from the sale of land at Ridley Stokoe.

i. In terms of financial resilience the audited financial information shows a strong position:
   - Once Earmarked Reserves (including amounts to cover future budget requirements) are disregarded, the General Fund Balance is £359,700. This amount is considered sufficient but not excessive and is in line with our reserves policy.
   - The pension deficit remains a long-term issue but its relative significance is lower in recent years.
   - In a year of significant financial challenges, including the first full year of trading at The Sill, a new management restructure and the withdrawal of exemption from Business Rates at our car parks, the Authority's budgets have been well managed with a surplus after carry forward requirements and transfers to earmarked reserves of £50.5K. A proposal to allocate this sum is discussed in Item 8 on this Agenda.

j. Members of the Finance and Audit Group received the audit planning report from Ernst & Young LLP at their meeting on the 12 February 2019.

k. Nicola Wright, Senior Statutory Auditor, of Ernst and Young LLP will present a summary of the audit findings (as reported in Appendix 2 to Item 3) at this Authority meeting.

l. The Statement of Accounts and the audit findings have been received and considered by the Finance and Audit Group. The amendments to the draft Statement of Accounts published were related to minor typographical changes only.

m. At the Finance and Audit Group meeting, members were advised that two separate recent tribunal rulings had found age discrimination in transitional arrangements to some new pension schemes. The Government Actuarial Department had been asked to prepare an assessment of the potential impact of these rulings on a Local Government Pension scheme wide basis and members were advised that if the estimated impact on our scheme liability was considered to be material, an adjustment would need to be made to the accounts.
n. The IAS 19 (pension) valuation report has since been updated to include the estimated impact of these rulings as determined by the Pension Actuaries, and as a result the Statement of Accounts has been adjusted to include an increase in the pension liability from £3,900,000 (as per the draft 2018/19 Statement of Accounts previously issued to members) to £4,370,000. The increase is a non cash adjustment.

o. In conclusion Members of the Authority are asked to note the audit findings and to approve the audited Statement of Accounts 2018/19 and authorise the Chairman and Chief Executive (National Park Officer) to sign off the accounts for issue

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