

Annual Audit Letter

South Downs National Park Authority

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

- This report summarises the findings from my 2010/11 audit. There were two parts to my audit:
- the audit of your financial statements; and
 - my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

I gave an unqualified audit opinion on your financial statements on 28 September 2011.

2010/11 was a shadow year before you became fully operational in 2011/12, and the first year where you needed to produce financial statements. The financial statements you presented for audit were of an acceptable standard and were supported by good quality working papers. I only detected a small number of errors as part of my audit. However, weaknesses in internal control arrangements over payments to external suppliers meant that I needed to undertake more work than planned to complete my audit.

Value for money

I gave a qualified value for money conclusion on 28 September stating that you had proper arrangements to secure economy, efficiency and effectiveness in your use of resources except for your arrangements to maintain a sound system of internal control.

You have sound arrangements to plan, oversee and report your finances. You have established key corporate governance arrangements such as standing orders, a counter fraud strategy and risk management arrangements. You have also done work to cost and manage planning services that, from 2011/12, will be provided on an agency basis by the 15 local planning authorities within your geographical boundaries. However, there were significant weaknesses in the control environment within procurement and processes used to approve invoices before payment. I concluded that this needed to be urgently addressed given the large proportion of your total spending that is with external suppliers.

Current and future challenges

Economic downturn and pressure on the public sector

The economic forecast for the UK and western developed economies remains difficult. Since taking office in May 2010 the Coalition Government has focused its attention on deficit reduction measures and the public sector has faced an unprecedented squeeze on its funding.

As a new authority you face significant challenges in the context of this broader economic downturn if you are to realise your vision and ambitions for the National Park over the next 20 years. You have made good use of 2010/11 to develop your future financial resilience and ability to deliver your plans. Your shadow year has given you the opportunity to set up suitable reserves to ensure sound financial standing and acceptable contingency for risks and unforeseen circumstances. In accordance with your medium term financial plans you have carried forward an underspend of around £2 million against the 2010/11 budget. You plan to use this underspend to fund transitional costs and one off items necessary to establish yourself as a fully operational body. This will help ensure your underlying recurrent spending remains within medium term funding constraints.

Planning

From 2011/12, determination of minor planning applications will be undertaken on an agency basis by the 15 local planning authorities within the national park boundary.

It is the first time that planning services have been delivered by a national park authority in this way, and the agency scheme is challenging because of its size and complexity.

You intend to pay a fee to each local planning authority for the delivery of planning services based on an assumed volume of planning applications. The fee can be varied, but any variation is subject to negotiation and agreement. The fee is intended to cover the full costs of the planning service at each local planning authority.

There is also variation in planning policy, service standards and costs across the local planning authorities within the national park. You plan to introduce a common planning information system for 2012/13 and, over time, intend to introduce a consistent planning policy framework covering the whole national park. To understand costs and performance more fully you will, over the medium term, need to specify and standardise the cost and service provided by each planning authority.

Financial statements and annual governance statement

Your financial statements and annual governance statement are an important means by which you account for the stewardship of public funds.

Overall conclusion from the audit

I gave an unqualified opinion on your financial statements on 28 September 2011.

The financial statements presented for audit were of a reasonable standard and were supported by good quality working papers. I only detected a small number of errors in my audit, which represents good performance given the low level of tolerance I am required to apply to my work on your accounts. As part of my work I found some weaknesses in how you applied your closedown arrangements which caused some slippage against the planned timetable for closedown and production on the accounts. You made changes to the financial statements because of my work to show more clearly the cost of senior interim and agency staff. You also more fully disclosed weaknesses in controls over payments to agency staff and external suppliers in your annual governance statement. I reported detailed findings from my audit of your financial statements, including details of adjustments made and recommendations for improvement, in my 2010/11 annual governance report at the Audit Committee on 27 September 2011.

Significant weaknesses in internal control

Your internal financial control arrangements are sound apart from weaknesses in internal control arrangements over payments to external suppliers. This is important given your decision to outsource most main support services and the relatively high proportion of your total spending that is with external suppliers. You are seeking to improve controls in this area during 2011/12 and I plan to test this as part of my work next year. You also use the payroll system of your financial services provider, Brighton and Hove City Council. I was not able to rely on controls within the system to support my work on the financial statements and needed to undertake a high level of detailed testing of payroll expenditure to gain assurance. This detailed testing of payroll expenditure did not identify any errors. I raised recommendations to improve the control environment in the payroll system as part of my audit work at Brighton and Hove City Council. This area will become more important during 2011/12 as you continue to make more full-time appointments.

I raised recommendations to improve internal financial control, including recommendations to address control weaknesses in procurement and accounts payable, as part of my annual governance report.

Value for money

I considered whether you are managing and using your money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against four criteria specified by the Audit Commission. My overall conclusion is the Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources except for the criterion to consider arrangements to manage your risks and maintain a sound system of internal control.

My conclusion on each of the four areas is as follows.

Value for money criteria and key messages

Criterion	Key messages
1. Financial planning and financial health Does the Authority plan its finances effectively to deliver its strategic priorities and secure sound financial health?	You devised and approved a medium term financial plan during 2010/11. The plan provides a clear link between your finances and your agreed priorities for the next three years. Quarterly budget monitoring has been established and there is evidence this is an effective control to detect areas of overspending. There is also evidence that actions are put in place where performance needs to be improved. The 2010/11 budget and medium term financial plans were also properly changed during the year to consider the impact of the government's comprehensive spending review (CSR) and its impact on funding available in future years.
2. Understanding costs and achieving efficiencies Does the Authority have a sound understanding of its costs and performance and achieve efficiencies in its activities?	As a new body you considered how best to structure yourself to maximise value for money. You decided to outsource your main support services such as IT, finance and legal. There is also clear evidence that you considered your current and predicted future cost base against available funding following cuts arising from CSR.

Criterion	Key messages
	From 2011/12, determination of most planning applications will be undertaken on an agency basis by the 15 local planning authorities within the national park boundary. It is the first time that planning services have been delivered by a national park authority in this way. You needed to undertake detailed work to cost the planning service at each local planning authority, make accurate predictions of activity and devise agreements with each local planning authority to pay this fee.
3. Financial reporting Is the Authority's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Budget monitoring and reporting arrangements are reliable, relevant and understandable. Budgetary control information is timely and the level of detail produced is proportionate to your size. You prepared your financial statements to an acceptable standard. The financial statements produced complied with statutory requirements and timetables. Relevant accounting and reporting standards were also met.
4. Risk management and internal control Does the organisation manage its risks and maintain a sound system of internal control?	You have a settled Audit Committee, which is the member body charged with governance. You have also appointed senior officers to statutory roles, such as the monitoring officer and the chief financial officer. There is an internal audit function that delivered a programme of internal work during the period. Key corporate governance arrangements and policies, such as standing orders and a counter fraud strategy, have been established. You also developed risk management arrangements, with high-level risks and mitigating actions reported to the Audit Committee. In my annual governance report I drew your attention to the high level of payments made to an interim senior officer during the year, which included enhanced rates of pay for work at weekends and on bank holidays. My review of these payments highlighted weaknesses in your record keeping and arrangements for the approval of expenditure. I concluded that it was not clear how you decided that a resource of this high level of seniority or cost was needed to deliver all of the work undertaken. You need to improve your system of internal financial control. Specifically, you need to improve procurement and address weaknesses in processes performed by the Authority to approve invoices before payment. This needs to be urgently addressed given the large proportion of your total spending that is with external suppliers. Given these findings I am not yet able to conclude that you yet have a sound system of internal control.

Criterion	Key messages
	You have decided to outsource many of your main support services. It is important that, in this kind of organisational model, processes and systems are devised that allow members to discharge their responsibility to ensure that internal control and governance arrangements are operating effectively.

Closing remarks

I have discussed and agreed this letter with the Chief Executive, Director of Corporate Services and the Director of Finance. I will present this letter at the Audit Committee on 18 January 2012 and will provide copies to all Authority members by 30 November 2011.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Fee letter	October 2010
Opinion plan	April 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011

The Authority has taken a positive and constructive approach to our audit. I wish to thank your staff for their support and co-operation during the audit.

Helen Thompson
District Auditor
November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Audit fee	£30,100	£23,100	£7,000 ⁱ
Total			

- i** I billed you an additional £7,000 for my audit of the financial statements. This was to recover the cost of detailed testing needed to gain assurance on expenditure paid to external suppliers.

Appendix 2 – Glossary

Annual governance statement

Governance is about how bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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