

Annual Governance Report

Exmoor National Park Authority

Audit 2007/08

September 2008



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.

Financial statements

- 3 We expect to issue an unqualified opinion on the financial statements. However, we identified that the Authority is currently not complying with the requirements of the SORP in relation to capital accounting. The Authority has setup an Asset Management Fund (AMF), which is included in reserves, to manage their leased vehicle assets. Whilst this is acceptable practice to manage the monthly management accounts, it does not comply with the SORP's guidance for capital accounting in the statement of accounts. This issue is explained in more detail on page 6. The accounts have not been adjusted, on the grounds of materiality, but we do recommend that the AMF is reclassified to the General Fund in 2008/09.

Value for Money

- 4 The Authority has made a number of improvements, from 2006/07, to their arrangements for securing value for money. The Authority now has adequate arrangements in place for securing economy, efficiency and effectiveness in its use of resources and this year we will issue an unqualified use of resources opinion.

Next steps

- 5 We ask the Authority to:
 - consider the matters raised in the report before approving the financial statements/recommend the financial statements for approval;
 - agree to adjust the financial statements as set out in our recommendations;
 - approve the representation letter on behalf of the Authority before we issue our opinion, conclusion and certificate; and
 - agree the proposed action plan.

Financial statements and Annual Governance Statement

- 6 The Authority's financial statements and Annual Governance Statement are important means by which the Authority accounts for its stewardship of public funds. As Authority members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 7 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 8 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Authority's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 9 In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Service reviews fail to deliver improvements in value for money.	The Authority realised a net surplus of £21,496, which has been added to the general fund surplus. During the year the Authority adopted a National Park Management Plan 2007-2012. The Authority also carried out a Staffing Compliment review to align the staff structure with the objectives of the plan. This review also delivered savings through not filling vacant posts.
Performance management processes and systems not adequate to assess VFM across the authority.	The Authority implemented a Performance Management Framework, which provides a link from the National Management Plan to individual staff work plans.

Draft representation letter

- 10 Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
 - you have approved the financial statements;
 - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
 - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
 - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
 - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 11 Appendix 2 contains the draft of the letter of representation we seek from you.

Accounting policies and financial reporting

- 12 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

Table 2 Accounting practice and financial reporting

Issue	Recommendations
<p>Asset Management Fund: The Authority has included an AMF in the financial statements. This fund is used to finance the purchase of assets which are then leased to the individual service areas.</p> <p>Depreciation is credited directly to this account which increases the reserve. Likewise capital receipts are credited here and not to the usable capital receipts reserve as we would expect.</p> <p>The authority also charges the service areas interest on the assets, which is then stated as income in the finance directorate account.</p>	<p>The current treatment does not comply with the requirements of the SORP. The AMF balance at the year end was £70,000. This is immaterial, so we have not recommended that the accounts are adjusted this year.</p> <p>However, as the reserve will increase annually it will become material, probably within the next two years. Therefore we have agreed with management that the AMF is removed in the 2008/09 financial statements and that the capital accounting requirements of the SORP are followed. We have included this error on the summary of unadjusted misstatements in Appendix 1.</p>
<p>Government grants: The authority purchases equipment using government grants. Each year the amortisation is written off from the Government grants deferred account. However this is not released to the I&E as prescribed in the SORP.</p>	<p>Currently the amortisation, totalling £147,228, is posted to reserves.</p> <p>Management have agreed that this treatment was incorrect and have adjusted the accounts accordingly, see summary of adjusted differences in Appendix 1.</p>
<p>Government grants deferred: The government grants deferred balance was incorrectly included within reserves. The SORP requires this balance to be included under liabilities.</p>	<p>Management have agreed that this treatment was incorrect and have adjusted the accounts accordingly, see summary of adjusted differences in Appendix 1.</p>

Financial statements and Annual Governance Statement

Issue	Recommendations
<p>Creditors:</p> <p>A number of years ago the Authority setup a partnership with Halsgrove Publishing. The Authority initially provided funding for the production of books, in respect of Exmoor National Park. Currently there is a balance of £11,206 included in creditors, which relates to profits on the sale of books.</p>	<p>This balance should be reclassified to earmarked reserves, as these funds will only be used to invest in the future publication of books.</p> <p>We have included this error on the summary of unadjusted misstatements in Appendix 1.</p>
<p>Profit on sale of fixed assets:</p> <p>The Authority made a profit of £5,350 on the sale of fixed assets in the year. Currently this has been posted directly to reserves and as a consequence is included in the Statement of Recognised Gains and Losses (STRGL).</p>	<p>This treatment is incorrect and the transaction should have been posted to the I&E account. However, after making the adjustments as required by statute, this does not have any impact on the net general fund movement.</p> <p>This has not been adjusted in the accounts, as it is immaterial.</p>

Errors in the financial statements

- 13 Management has not adjusted the financial statements for the errors identified in Table 5 in Appendix 1. We would therefore ask you to consider whether to adjust these errors. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter. Appendix 2 contains a draft copy of the Letter of Representation.
- 14 Management has agreed to adjust the financial statements for the errors identified in Table 6 in Appendix 1. However, we are reporting these balances to you as they are material.

The audit report

- 15 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 3 contains a copy of our draft report.

Material weaknesses in internal control

- 16 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Other matters

- 17 There are no other matters that auditing standards require me to report to you.

Value for money

- 18 We are required to conclude whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against seven criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 19 We have assessed the arrangements of the Authority as adequate in all 12 areas and we therefore propose to issue an unqualified conclusion.

Formal audit powers

20 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Authority's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Authority to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Authority.

21 We have not and do not propose to exercise these powers.

Independence

- 22 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 23 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 24 We communicate to you:
- any relationships between us and the Authority, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Authority

- 25 We have identified no relationships that might affect objectivity and independence.

Audit fees

- 26 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 3 Audit fees

	Plan 2007/08	Actual 2007/08
Financial statements and Annual Governance Statement	11,108	11,108
Value for Money	3,630	3,630
Total Audit Fees	14,738	14,738
Other work - certification of grant claims	749	-

- 27 The analysis above shows that we contained our audit fee within the totals you have already agreed.
- 28 Under the Audit Commission's advice and assistance power it may provide non-audit services to the Authority.

Our arrangements to ensure independence and objectivity

29 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

Table 4 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Summary of misstatements

Table 5:

30 The table below shows the summary of unadjusted misstatements identified during the audit, which have not been corrected by management.

	I&E Account		Balance sheet	
	Dr £	Cr £	Dr £	Cr £
General Fund Reserve			74,805	
Asset Management Fund				74,805
To reclassify the AMF to the General Fund				
I&E - Corporate Management	5,292			
I&E - Rangers, Estate Team & Volunteers		4,772		
I&E - Promoting Understanding		520		
To reverse the notional interest charges made to service departments				
Creditors			11,206	
Earmarked reserves				11,206
To reclassify the Halgrove Publishing surplus				
I&E Account		5,350		
Statement of movements on the general fund balance	5,350			
To reclassify the profit on sale of fixed assets to the I&E Account				
Total	10,642	10,642	86,011	86,011

Table 6:

31 The table below shows the summary of adjusted misstatements identified during the audit, which have been corrected by management.

	I&E Account		Balance sheet	
	Dr £	Cr £	Dr £	Cr £
I&E Accounts	147,228			
Statement of movements on the general fund balance		147,228		
To correctly post the government grants amortisation				
Government grants deferred - reserves			141,893	
Government grants deferred - liabilities				141,893
To reclassify from reserves to liabilities				
Total	147,228	147,228	141,893	141,893

Appendix 2 – Letter of representation

The Audit Commission
3-6 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter
EX2 8PW

Exmoor National Park Authority - Audit for the year ended 31 March 2007

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Exmoor National Park Authority (the “Authority”), the following representations given to you in connection with your audit of the Authority’s financial statements for the year ended 31 March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which give a true and fair view and for making accurate representations to you.

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Authority and the reasons for not correcting these items are on the grounds of materiality.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

There are no events circumstances effecting the carrying value of fixed assets which have not already been disclosed to you.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Board meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Assets

The following have been properly recorded and when appropriate adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

Appendix 2 – Letter of representation

- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by Members of the Authority, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete stock and no stock is stated at an amount in excess of net realisable value.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Signed on behalf of Exmoor National Park Authority

Signed

Name

Position

Date

Appendix 3 – Audit opinion

Independent auditor's report to the Members of Exmoor National Park Authority

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Exmoor National Park Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Exmoor National Park Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts. My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

Appendix 3 – Audit opinion

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority accounting statements and related notes.

Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Exmoor National Park Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Alun Williams
District Auditor
3-6 Blenheim Court, Lustleigh Close, Exeter

September 2008

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

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