

Exmoor National Park Authority

External Audit 2002-03

Annual Audit Letter

November 2003

Contents

Section		Page
1	Introduction to this letter	1
2	Key messages from our audit	3
3	Principal findings	4
4	Our audit going forward	8
5	Concluding remarks	9

1 Introduction to this Letter

Summary

- 1.1 Our Annual Audit Letter summarises the results of the audit work we have undertaken at Exmoor National Park Authority (the Authority) in 2002-03, in accordance with the requirements of the Audit Commission's Code of Audit Practice 2000.
- 1.2 Our key messages are outlined in **Section 2**; and are presented in more detail in **Section 3**. In **Section 4**, we look forward to our future audit work. As indicated in the concluding **Section 5**, individual aspects of our work this year are supported by more detailed reports, where appropriate.

Background and coverage of this Letter

- 1.3 The work we have completed in 2002-03 was described in our Audit Plan, which was agreed with the Resources Committee at its meeting on 22 July 2003. The Code of Audit Practice, which sets out our audit responsibilities, specifies that our work should cover three core areas, which are set out in the diagram below.



1 Introduction to this Letter

1.4 The key aspects considered under each code area are:

Code Area	Key Elements of Work
Financial Aspects of Corporate Governance	<ul style="list-style-type: none"> • <i>Systems of Internal Financial Control</i> • <i>Financial Standing</i> • <i>Standards of Financial Conduct, and the prevention and detection of fraud and corruption</i> • <i>Legality of financial transactions</i>
Accounts	<ul style="list-style-type: none"> • <i>Opinion on financial statements</i>
Performance Management	<ul style="list-style-type: none"> • <i>Best Value Performance Plan</i> • <i>Best Value Performance Indicators</i>

1.5 The work we undertake focuses on our assessment of the risks to the Authority, which we summarised within our Audit Plan. Our work also applies the principles of the managed audit, whereby we work closely with management, internal audit and others, to ensure overall audit efficiency and effectiveness is maximised.

1.6 Our findings in this letter seek to give you assurance, as well as highlighting areas where we are recommending action to improve the Authority's financial and performance systems and procedures. They have been discussed with appropriate officers.

Status of our Annual Audit Letter to the Authority

1.7 Our Annual Audit Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies, issued by the Audit Commission. It is prepared for the sole use of the Authority and no responsibility is taken by us, to any non-executive or staff member, in their individual capacity, or to any third party.

2 Key Messages From Our Audit

2.1 We are pleased to report that, overall, the results of our audit indicate that Exmoor National Park Authority is well managed; and is operating within its regularity and governance framework. Nevertheless, our work has, inevitably, identified a number of areas where improvements to current arrangements should be sought. There are a number of issues arising from the audit and looking forward to next year, which we wish to highlight to the Resources Committee and the Authority. These are summarised in the table below and discussed in section 3.

	Key Issue	Page No
	Accounts	
1.	<p>We have issued an unqualified opinion on the Authority's accounts for the year end 31 March 2003.</p> <p>We identified a number of amendments to the accounts. The majority of adjustments have been accepted, and amended, by the Authority in the 2002-03 accounts. The disclosure amendments, which have not been adjusted, did not impact the reported performance of the Authority, and will be considered when preparing future accounts.</p>	4
	Systems of Internal Financial Control	
2.	<p>The Authority continues to operate adequate financial systems.</p> <p>There were weaknesses in the service provided, to the Authority, by internal audit during the year. Whilst we have been able to rely on some of the work completed, the programme was delivered late within the financial year and draft reports have not been agreed by management.</p>	4
	Legality	
3.	<p>The arrangements for ensuring the legality of transactions remains sound.</p> <p>There is a continuing issue regarding the legality of State Aid payments. These payments have been made without approval from the European Union and retrospective approval is currently being sought.</p> <p>The Authority has disclosed the potential repayment of the government funding, relating to these State Aid payments, as a contingent liability in the notes to its Accounts.</p>	5
	Performance Audit	
4.	<p>Best value performance plan</p> <p>We have issued an unqualified opinion on the 2003-04 BVPP.</p> <p>Our review of the performance indicators identified one upon which we placed a reservation and one other which was amended.</p>	6

2.2 We invite the Authority to receive our Annual Audit Letter and to consider its response to the key messages reported above.

3 Principal Findings

Planning Risk Assessment	Assessed Risk	Findings	Confirmed Risk
Opinion: 2002-03 Financial Accounts			
<ul style="list-style-type: none"> We issued an unqualified opinion on the 2001-02 accounts. There were a small number of areas identified, where the accounts could be improved, and these have been implemented. The changes to the 2002 SORP, additional FRS17 disclosures, the new Statement on the System of Internal Financial Control and the Prudential Code will present a challenge to the Authority. 	Medium	<ul style="list-style-type: none"> An unqualified opinion was provided on the Authority's accounts. There were a number of amendments made to the accounts. The key issues are summarised below. The Authority included a Statement on the System of Internal Financial Control. This was amended to include a sentence explaining the weakness in the internal audit service received in the year. The Authority had not depreciated any of its fixed asset additions during the year. The additional depreciation and capital charges has now been included within the accounts. 	Low
Financial Aspects of Corporate Governance: Systems of Internal Control			
<ul style="list-style-type: none"> The Authority operates mature financial systems, with adequate controls. Our audit in 2001-02 identified a number of concerns, in particular, the slippage in delivery of the internal audit programme. 	Medium	<ul style="list-style-type: none"> The Authority continues to operate adequate financial systems. Again, our concern lies with the internal audit service which was late in delivering its programme in 2002-03, with some audit work not being started until after the year end. Internal audit reports have been issued in draft but none of these have been finalised to date. 	Medium

3 Principal Findings

Planning Risk Assessment	Assessed Risk	Findings	Confirmed Risk
Financial Aspects of Corporate Governance: Financial Standing			
<ul style="list-style-type: none"> The Authority has remained within budget over the last five years. Though resources remain tight, prudent financial control means that a small surplus has been achieved in recent years. 	Low	<ul style="list-style-type: none"> The Authority has reported a surplus of £22,000 for 2002-03. The general fund reserves have increased to £146,000, a level which represents 5.4% of the Authority's net operating expenditure. There were no significant variances between actual and budgeted expenditure for 2002-03. The balance on the general fund reserves has subsequently been reduced by £17,000 to support the approved budget for 2003-04. We consider that the level of general reserves maintained by the Authority is adequate. The current budget monitoring reports for 2003-04, show some small variances against budget but overall the Authority is on target to breakeven. 	Low
Financial Aspects of Corporate Governance: Standards of Financial Conduct and Prevention and Detection of Fraud and Corruption			
<ul style="list-style-type: none"> Our audit will also focus on the operation of the overall governance framework; including Standing Orders and Standing Financial Instructions, which are in the process of being updated, and the operation of the Authority and sub-committees. 	Low	<ul style="list-style-type: none"> The Authority updated its Standing Orders and Financial Regulations during the year. Policies and procedures are updated as and when required. The new officers code of conduct will be issued following the publication of the National code. 	Low

3 Principal Findings

Planning Risk Assessment	Assessed Risk	Findings	Confirmed Risk
Financial Aspects of Corporate Governance: Legality of Financial Transactions			
<ul style="list-style-type: none"> In previous years, we have identified that appropriate arrangements are in place for ensuring the legality of transactions. 	Low	<ul style="list-style-type: none"> Appropriate arrangements continue to be maintained to address emerging legal issues. There is a continuing issue regarding the legality of State Aid payments. These payments have been made without approval from the European Union and retrospective approval is currently being sought by Departments for Environment, Food and Rural Affairs. If approval is not received the Authority could be liable to repay government funding it has received in respect of these payments. The Authority has disclosed the potential repayment of the government funding, relating to these State Aid payments, as a contingent liability in the notes to its accounts. 	Low
Performance Management: Best Value Performance Plan			
<ul style="list-style-type: none"> An unqualified opinion was given in respect of the 2002-03 BVPP. A number of non-statutory recommendations were made in respect of underlying systems and targets. We will monitor the Authority's response to these recommendations. The arrangements for producing PIs are generally robust. In 2001-02 two indicators were reserved and a further three required amendment. 	Medium	<ul style="list-style-type: none"> An unqualified opinion is given on the 2003-04 BVPP. We have made three non-statutory recommendations in respect of underlying systems and targets Our review of the performance indicators identified one indicator upon which we placed a reservation and one required amendment. The reserved planning cost indicator is based on estimated data and not on outturn data provided in the RO forms, as required by the guidance. 	Low

3 Principal Findings

Planning Risk Assessment	Assessed Risk	Findings	Confirmed Risk
Performance Management: Risk Management and E-Government			
<ul style="list-style-type: none"> The identification and management of risks is an important aspect of maintaining internal control. The Authority started to make progress on introducing risk management ahead of 2002-03. We will consider the progress the Authority has made in developing a Risk Management policy and the implementation of a Risk Management strategy. There is a continued national focus on the implementation of an E-Government strategy. We will continue to review the progress made by the Authority in this area. 	Medium	<ul style="list-style-type: none"> The Authority is aiming to produce a draft risk management strategy in December 2003. It has been agreed that our review of this area should be delayed until the risk management strategy is in place and the Authority has commenced work towards implementing its risk management policy. The Authority is currently bidding for the next round of e-government funding and it has been decided to delay our review until further progress has been made in implementing e-government at the Authority. 	Medium

4 Our audit going forward

Planning for the 2003-04 audit

- 4.1 Our current Audit Plan covers a period up to 31 March 2004. In fact, the audit work, for the second year of this plan, will not be completed until the audit of the annual accounts for the year ending 31 March 2004 has been concluded.
- 4.2 The Authority needs to note that the deadline for approved 2003-04 accounts has been brought forward a month to 31 August 2004. We will need to work with the Authority to ensure that the audit can be completed with the minimum of delays and within the shortened time period that is likely to be available.
- 4.3 Although our current Audit Plan covered the period to 31 March 2004, incorporating two financial years, we will re-visit our planning process, early in 2004, to ensure that our risk assessments from last year are still valid. If we feel that we need to change the direction of our audit work, in any way, as a result, we will report this to you in an update to our Audit Plan.
- 4.4 As we have reported earlier, there are two elements of performance audit work, risk management and e-government, that were planned to be carried out in the first period of the Audit Plan. We will perform this work during 2003-04 and report on them in due course.
- 4.5 We understand that the Authority has received notification from the Audit Commission of the Comprehensive Performance Assessment (CPA), as it applies to National Park Authorities. This work is due to take place during 2004.
- 4.6 Our experience at principal local authorities indicates there is significant preparation required in advance of this process. Whilst, due to the size and nature of the Authority, we would not anticipate such an onerous process, we will support the Authority in its preparations. We will be required to provide commentary to the Audit Commission on our own assessment of the Authority, from an external audit viewpoint. In addition, we are required to provide the Audit Commission with Auditor Scored Judgements (ASJs) covering the financial aspects of audit.
- 4.7 We will discuss this assessment with the Authority prior to submitting it to the Audit Commission.

Looking ahead to 2004-05

- 4.8 The Audit Commission has determined that from 2004-05, the external audit year will run alongside the Authority's own financial year. In preparation for this change, we will carry out our planning process and have discussions with relevant senior staff at the Authority, in the first quarter of 2004.

5 Concluding remarks

Reports issued during the audit

5.1 Our audit plan for 2002-04 highlighted a number of different aspects of our work. These are subject to detailed reports. We detail below those reports that we have finalised and are presenting to the Resources Committee at the same time as this Letter.

Reported

- Matters arising from the Accounts and Financial Governance Audit November 2003
- Matters arising from the Audit of: November 2003
 - Best Value Performance Plan 2003-04
 - Best Value Performance Indicators 2002-03

Acknowledgement

5.2 We wish to take this opportunity to thank you for the assistance that has been provided to us during this year's audit. We aim to deliver an audit programme that is of a high standard and provides a positive contribution to the planning and assurance processes of the Authority. Achieving this aim is helped through your co-operation and support.