

# Annual Audit Letter

Broads 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. My audit covers:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

I include only significant recommendations in this report. The Authority has accepted the one recommendation made.

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

## Audit opinion and financial statements

My work on the audit is now complete. I issued an unqualified audit opinion on 19 December 2011.

Because of the additional complexities of producing for the first time financial statements under International Financial Reporting Standards (IFRS), the Authority was unable to produce draft financial statements by 30 June 2011. The public inspection period was delayed as the necessary advertisement was not placed in time.

We found a number of errors within the draft financial statements provided for audit. The extent of issues identified during this audit has resulted in the need for the Authority to redraft its financial statements.

This has led to extra delays in the audit, as we have:

- had to repeat audit work, once the revised financial statements were produced; and
- completed additional procedures to gain sufficient audit assurance on the revised balances.

The issues reported above have contributed to me not being able to complete the audit work and issue my audit opinion by 30 September 2011.

## Value for money

I am satisfied that in all significant respects the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011. I issued an unqualified value for money conclusion.

The improvements made by the Authority to strategic asset management have enabled me to remove the qualification given to this area in previous years.

## Significant matters arising during my audit

I became aware of an issue which could lead to the Authority incurring costs above the level they had expected on their accommodation at Dragonfly House.

Any actions and decisions taken on related expenditure for Dragonfly House is solely a matter for the Broads Authority. However, I do need to assess the issues and the Authority's position, as it stands, on related expenditure for Dragonfly House. In particular I have considered:

- representations on how the Authority has considered the extent of provisions and contingent liabilities it should recognise in the 2010/11 financial statements;
- the accounting treatment for any related provisions and contingent liabilities, including compliance with relevant International Accounting Standards;

- how the Authority has considered the financial implications arising from the issue, and whether assumptions feed into financial planning; and
- the robustness of risk management arrangements for the issues related to Dragonfly House expenditure. I considered Authority awareness, action taken to mitigate risks, and member involvement.

This has resulted in an additional contingent liability disclosure in your financial statements. Otherwise, I am satisfied the Authority is effectively managing all the risks associated with the related expenditure for Dragonfly House.

I will maintain a watching brief and consider my response as I receive updates from your officers.

# Current and future challenges

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The economic environment continues to have a significant impact on the Authority. Following a number of years of growth from central funding, the Authority is now facing reduced government support. The Authority is responding to these changes by reviewing the level of services it is able to provide, implementing a new organisational structure, and continuing to seek more efficient working arrangements.

Partnership working is important to the delivery of the overall Broads Plan, and the current financial pressures have also affected the resources available to partners. The Authority will need to continue to work closely with partners and monitor their contributions against the new Broads Plan.

# Financial statements and annual governance statement

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The Authority's financial statements and annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

## Overall conclusion from the audit

The new IFRS reporting framework placed a significant amount of new accounting and disclosure requirements on the Authority. As a result the Authority was unable to complete this exercise and produce the financial statements by the 30 June 2011.

I reported the findings of my audit to the Financial Scrutiny and Audit Committee at its meeting of 23 November 2011. I reported that my audit had identified two material errors. My report also referred to issues I identified in respect of accounting practices and financial statements disclosures. All errors identified have been amended by the Authority.

I issued my audit report including an unqualified opinion on the financial statements on 19 December 2011 and this opinion is included in the financial statements that the Authority has published on its website.

## Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

## Recommendation

### Recommendation

**R1** Complete a post-implementation review of the 2010/11 accounts preparation and closedown process. Identify and address the issues that led to the delay in certifying and submitting 2010/11 accounts. Ensure that the Authority's 2011/12 accounts plan, closedown and preparation means that draft financial statements are certified and submitted for audit by 30 June 2012. As part of good quality review, management should utilise disclosure checklists to resolve IFRS Code compliance issues before the financial statements are submitted for audit.

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# Value for money

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**I considered whether the Authority is managing and using its 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 criteria specified by the Audit Commission.

My conclusion on each of the areas is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<p>1. Managing finances</p> <p>The organisation has proper arrangements in place to plan financial health, understand costs and achieve efficiencies, and produce accurate financial reporting.</p>	<p>The Broads Authority has a medium term financial plan incorporated into its three-year business plan. This sets out a financial strategy for the duration of the plan.</p> <p>Financial plans have been re-assessed because of reduced funding to ensure budgets are appropriately set and reserve levels maintained in line with the adopted policy without resorting to any short term fixes.</p> <p>The Authority have an established budget setting process and a good record of setting a balanced budget, and delivering against that budget.</p> <p>There is strong evidence that members and the corporate management team exercise collective responsibility for financial matters and understand the financial environment in which the body operates.</p>

Criterion	Key messages
	<p>The Authority has been proactive in reviewing and understanding costs, recent examples include:</p> <ul style="list-style-type: none"> <li>■ the Resource Allocation Working Group, which was established to undertake a full review of costs and services because of funding cuts. The proactive work has put the Authority in a strong position to continue to balance the budget, despite the significant funding reduction; and</li> <li>■ the Navigation, Finance and Tolls Review Group set up to review the costs associated with the navigation account. This group undertook an extensive analysis of expenditure associated with navigation.</li> </ul> <p>The results from these and other actions have allowed the Authority to identify and clearly articulate its priorities and the efficiency savings necessary to secure its financial resilience in the medium to long term.</p> <p>One significant change will see an Authority restructure to align services to available resources.</p> <p>As reported in the financial statements sections above, the draft 2010/11 accounts were not prepared by the deadline of 30 June because of issues arising from IFRS implementation. The draft accounts submitted for audit contained material errors (classification/ accounting errors in relation to IFRS) although these did not impact on the reported surplus or useable reserves of the Authority.</p>
<p>2. Governing the business</p> <p>The organisation has proper arrangements for risk management and internal control.</p>	<p>Risk management arrangements include a risk management policy and strategic risk register that is updated and reviewed by the Financial Scrutiny and Audit Committee. The risk register covers all main areas of business.</p> <p>The Authority has a Code of Corporate Governance and other relevant policies to govern operations. The Financial Scrutiny and Audit Committee agree the internal audit plan, receive internal and external audit reports, and monitor implementation of recommendations.</p>
<p>3. Strategic asset management</p> <p>Following up the weaknesses that resulted in a qualified VFM conclusion in 2009/10.</p>	<p>I qualified my VFM conclusion last year because of the lack of an asset management strategy and weaknesses in the detailed records of assets which the Authority holds.</p> <p>The Authority has worked hard to secure improvements in this area and I am pleased to report that I have removed this qualification. I have seen improvements in the following areas.</p>

- Consolidation of land and property assets on to an excel database. The database holds information for each asset on the type of documentation, location and Grid Reference, status of any agreement, terms and conditions, responsible officer, relevant dates, valuation, running costs, and maintenance or other liabilities.
- A capital expenditure programme has been developed for the period 2011/12 to 2014/15 and is incorporated into the Authority's Business Plan.
- An Asset Management Strategy has been developed and was approved by the Management Team in April 2010. This includes details of practices in relation to asset management, acquisitions and disposals.
- Establishing an Asset Management Steering Group to influence and monitor the strategy.

The Authority recognises that further improvements can be made to their asset management. In May 2011 a new post of Asset Officer was introduced to oversee these improvements.

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# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Director of Change Management and Resources. The content of the letter was presented within my Annual Governance Report at the Financial Scrutiny and Audit Committee on 23 November 2011. I will provide copies to all members.

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

Report	Date issued
Audit Fee Letter	April 2010
Audit Opinion Plan	June 2011
Annual Governance Report	November 2011
Audit opinion on the accounts	December 2011
Annual Audit Letter	December 2011

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

Neil Harris  
District Auditor

December 2011

# Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	£31,210	£26,710	+ £4,500
Non-audit work	£0	£0	£0
<b>Total</b>	<b>£31,210</b>	<b>26,710</b>	<b>+ £4,500</b>

When I set my fee, this was based on a number of assumptions, including that I did not need to undertake work for any new or increased audit risks and that we received timely financial statements and working papers. I have raised issues in my report on the extent of amendments necessary to the accounts to ensure the Authority complied with the first time adoption of International Financial Reporting Standards (IFRS) and the extra audit work arising from reviewing the significant matter on Dragonfly House expenditure.

These issues have resulted in additional audit work to gain sufficient audit assurance. I did not foresee these risks at the time I prepared my audit plan and my fee did not include any assumptions that I would undertake work in this area. As a result, I have confirmed with the Director of Change Management and Resources that I plan to charge additional fees to cover the cost of this extra work. My additional fee is likely to be £4,500.

# Appendix 2 - Glossary

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## **Annual governance statement**

Governance is about how local government 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 local government 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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