

Audit Summary Report

May 2006



Regularity Report

Broads Authority

Audit 2004/2005

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Authority

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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Introduction

- 1 Our Audit Plan for 2004/05 explained the work we would be carrying out to meet our Code of Practice responsibilities. This report sets out the results of our opinion audit work on the Authority's annual financial statements for 2004/05 and incorporates our review of the Authority's core processes and detailed testing upon the statement of accounts.
- 2 It also covers our review of the Authority's management arrangements regarding the financial aspects of corporate governance, and the findings from our Best Value audit.
- 3 Our overall conclusions are set out below and our more detailed findings are included in the attached action plan. Detailed findings are reported on an exception basis. We have only included the issues where the Authority should consider strengthening its arrangements, and have not included the areas where we found the Authority's arrangements to be satisfactory.

Core process review

- 4 The core processes of the Broads Authority can be relied upon to produce financial statements that are free from material misstatement.
- 5 Core process review is part of our approach to opinion work that focuses on the key processes that determine the reliability of the financial statements. The following processes have been identified as key to the accuracy and completeness of the financial statements:
 - the main accounting system, and its reconciliation to feeder systems and subsidiary records;
 - budget monitoring and other high level controls; and
 - closedown procedures.
- 6 The operation of the three key financial processes at the Authority was reviewed. We concluded that the main accounting system, budgetary control procedures and the closedown processes are satisfactory, and that reliance can be placed on them when forming an opinion on the financial statements.

Financial statements

- 7 The 2004/05 statement of accounts were prepared and approved by the 31 July deadline. We identified no material errors or any other significant issues to report to those charged with governance, although a number of adjustments were made to the accounts. We issued an unqualified opinion in February 2006.
- 8 As the Broads Authority's auditors, we are required under the Audit Commission Act 1998 and the Code of Audit Practice to give an opinion on whether the financial statements present fairly the financial position of the Authority, and to certify that the audit has been completed in accordance with the Act.
- 9 In order to discharge this duty, year-end balances were substantiated and agreed back to underlying records. In addition, the contents of the financial statements and the accompanying notes to the accounts were examined to ensure full and accurate disclosure in accordance with the Statement of Recommended Practice (SORP).
- 10 The 2004/05 statement of accounts were prepared and approved by the 31 July deadline. An unqualified opinion was given on the statement of accounts in February 2006.
- 11 We are required by Statement of Auditing Standards (SAS) 610 to report to those charged with governance (the Authority's members) certain matters before we give the opinion on the financial statements. There were no significant issues to report to members under SAS 610 and no report was found to be necessary. However, a number of presentational adjustments were agreed with management and incorporated in the final audited statements over the course of the audit. These included:
 - improvements to the Accounting Policies to ensure increased compliance with the SORP;
 - the inclusion of additional disclosure notes to support the primary financial statements; and
 - £80,000 disclosure corrections to the pension liability and pension reserve figures where these were different to note 6 to the accounts.

- 12 A number of other issues were identified during the course of our audit of the financial statements and recommendations have been made for improvement as set out in the action plan at Appendix 1. The key issues arising were as follows.
- Whilst the Statement on Internal Control within the 2004/05 financial statements is adequate in terms of content, the procedures leading to its preparation should be improved for 2005/06. More detailed supporting evidence should be collected and Internal Audit should be requested to provide a Head of Internal Audit opinion on the system of internal control.
 - The SIC should be reviewed and adopted by a members committee separately to the approval of the accounts.
 - The Broads Authority's assets (particularly vehicles and vessels) are depreciated annually, but when revalued every five years by management, the value tends to increase relatively significantly leading to a significant balance on the Fixed Asset Restatement Account (FARA). Management have stated that the amounts passing through the income and expenditure accounts are of a repairs nature. However, given the not insignificant revaluation increases there is a risk that enhancements have occurred, over and above the usual repair and maintenance. Any such enhancements should be capitalised as additions to fixed assets and not expensed.

Financial aspects of corporate governance

- 13 It is the Authority's responsibility to put in place arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. It is our responsibility to review those arrangements. The main focus of our work for 2004/05 was to identify and review any changes in the Authority's arrangements from the previous year, and to follow-up the progress made on implementing recommendations made in last year's report.
- 14 This work covered the following areas:
- the financial standing of the Authority;
 - systems of internal financial control;
 - standards of financial conduct, and the prevention and detection of fraud and corruption; and
 - the legality of transactions that might have significant financial consequences.
- 15 Good progress has been made on the implementation of our 2003/04 regularity report recommendations. One recommendation has not been fully implemented; this relates to updating system procedure notes. This has been included in the action plan at Appendix 1 to this report.

- 16 Key recommendations arising from our 2004/05 audit work are set out below. All of the recommendations are included in detail in Appendix 1.
- Since the revisions to the committee structure, Internal Audit does not report formally to Members. We understand that the Authority considered setting up a Performance/Regularity Committee, but it was felt this would counteract the overall committee streamlining goal without significant gains. However, as the Internal Audit function is a key element of the Authority's system of internal control which is reported in the Statement of Internal Control, we consider that members should formally receive the reports of the Internal Auditors.
 - Ensure that procedure notes are up-to-date in advance of the 2005/06 audit to enable compliance with International Standards of Auditing. As business critical systems are upgraded, the associated procedure notes should also be revised and updated.

Best value performance plan

- 17 The Authority is required to publish annually a BVPP, which summarises its assessment of performance and its plans in relation to best value. The Authority is responsible for preparing the BVPP and for the information and assessments that are set out within it, and the assumptions and estimates on which they are based. It is also responsible for putting in place appropriate performance management and internal control systems, from which the information and assessments in the BVPP are derived.
- 18 Auditors should consider and report on whether the Authority has complied with statutory requirements in respect of the preparation and publication of its BVPP.
- 19 Auditors are not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the audited body in its BVPP.
- 20 The audit identified no significant issues in respect of the BVPP and we issued a standard audit opinion on the BVPP in advance of the 31 December 2005 deadline.
- 21 We identified one area for improvement in the production of the performance indicators included in the BVPP. Errors were identified in the manual calculation for BVPI 109a, 109b and 109c (Processing planning applications) and this should be improved for future years. A review of the calculation and reconciliation to the ODPM return which collects the same data may prevent similar errors.

The way forward

- 22 A number of recommendations have been made for improvement as set out in the action plan at Appendix 1 to this report. The Authority is requested to respond to all our recommendations and we will review progress made against these recommendations during our 2005/06 audit visit.
- 23 For 2005/06, officers should note that the Accounts and Audit Regulations 2003 and the updated SORP have brought forward publication deadlines by a further month. This will require the Authority to prepare and approve the accounts by 30 June and to publish them by 30 September and arrangements will need to be in place to enable these early deadlines to be achieved.

Acknowledgement

- 24 We would like to thank staff at the Broads Authority for their help and assistance during the course of the 2004/05 regularity audit.

Appendix 1 – Action plan

Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Financial statements - accounting policies						
<p>There is some lack of distinction between what should rightly be included as an accounting policy, and what is general accounts information, which would be better placed in the notes to the revenue accounts and balance sheet.</p> <p>Example - a policy is to carry out an annual impairment review whereas the fact that an impairment review has been carried out and that no assets were found to be impaired best sits in the notes to the balance sheet.</p> <p>This primarily affects policies 2, 12, 13 and 14.</p>	R1 Review and, where appropriate, amend the accounting policies in the preparation of the 2005/06 accounts.	2	Head of Finance	Yes	The accounting policies will be amended accordingly. Note that this will result in certain notes being duplicated in both the General and Navigation sections of the accounts.	As part of the preparation of the 2005/06 accounts.
<p>The leasing policy is incomplete regarding when the authority recognises both operating and finance leases. It also includes information which should really be included in the notes to the accounts (see recommendation 1 above).</p>	R2 Review and amend the leasing accounting policy in the preparation of the 2005/06 accounts.	2	Head of Finance	Yes	This will be reviewed and where necessary amended.	As part of the preparation of the 2005/06 accounts

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Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Financial statements - Statement of Internal Control (SIC)						
<p>Whilst the Statement on Internal Control within the 2004/05 financial statements is adequate in terms of content, the procedures leading to its preparation should be improved for 2005/06. More detailed supporting evidence should be collected and Internal Audit should be requested to provide a Head of Internal Audit opinion on the system of internal control.</p>	<p>R3 Liaise with Internal Audit as regards the content of the SIC and the provision of the Head of Internal Audit opinion on the system of internal control. Consider the good practice examples in CIPFA's Guidance Notes on SICs in terms of the procedures that should be in place to support the preparation of the SIC.</p>	3	Head of Finance	Yes	Internal Audit have been requested to provide an opinion on the system of internal control.	As part of the preparation of the 2005/06 accounts.
<p>The SIC should be separately reviewed and adopted by a Members committee.</p> <p>The 2004/05 SIC for the Broads Authority was reviewed by the full Broads Authority as part of their approval of the statement of accounts, therefore, Members have not considered the SIC as a separate statement.</p>	<p>R4 Separately review and adopt the SIC for 2005/06.</p>	3	Head of Finance	Yes	The Broads Authority will be asked to separately review and adopt the Statement of Internal Control.	30 June 2006

Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Financial statements - revaluation of fixed assets: land and buildings						
<p>The NPS Property Consultants' certificate does not state that an annual impairment review has been carried out, nor does it confirm that no assets are impaired. The valuation certificate should also include estimates by the valuer of the remaining useful life of the assets.</p>	<p>R5 For future valuations require the valuer to carry out and report an annual impairment review on the assets valued. The valuer should also be requested to supply estimates of the remaining useful life of the assets.</p>	2	Head of Finance	Yes	<p>This approach will be used for all future valuations. The next such valuation is likely to take place in 2008 (as they are carried out three-yearly).</p>	March 2008
<p>Certain of the Authority's buildings have been revalued in 2004/05. The balance sheet value of these assets has been reduced by the expected cost of disposal. This does not appear to be in accordance with Financial Reporting Standard 15 where the asset is for continued use by the Authority.</p>	<p>R6 For future valuations do not reduce existing use valuations (EUVs) by the expected costs of disposal, unless the asset is surplus to requirements.</p>	2	Head of Finance	Yes	<p>We will not adjust for disposal costs in future.</p>	<p>With immediate effect.</p>

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Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<p>No depreciation was charged for the year on operational land and buildings which were revalued in the year. The appropriate accounting treatment would be to charge depreciation as normal and then to make the revaluation adjustment as a 'year-end' entry.</p>	<p>R7 In the year of revaluation continue to depreciate the assets as usual, and then put the revaluation movement through as a 'year-end' entry.</p>	2	Head of Finance	Yes	In future operational land and buildings will be depreciated in the year in which they are revalued.	With immediate effect.
Financial statements - revaluation of other assets						
<p>The Broads Authority's assets (particularly vehicles and vessels) are depreciated annually, but when revalued every five years by management, the value tends to increase relatively significantly leading to a significant balance on the Fixed Asset Restatement Account (FARA). Management have stated that the amounts passing through the income and expenditure accounts are of a repairs nature.</p>	<p>R8 Ensure that any enhancement expenditure is properly identified and capitalised. R9 Consider reviewing the depreciation policy and assessment of useful economic lives to ensure that these are appropriately set.</p>	3	Head of Finance	Yes	The depreciation policy has been reviewed to ensure that all assets are accurately stated in the accounts.	As part of the preparation of the 2005/06 accounts

Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<p>However, given the not insignificant revaluation increases there is a danger that enhancements have occurred, over and above the usual repair and maintenance. Any such enhancements should be capitalised as additions to fixed assets and not expensed.</p>						
<p>FACG - the role of the Monitoring Officer</p>						
<p>Not all staff are aware of who the Monitoring Officer is, nor what his duties involve. The standing documents for Gifts, Hospitality and Interests and the Anti-Fraud and Corruption Strategy does not refer to the Monitoring Officer/Solicitor.</p>	<p>R10 Raise the profile of the Monitoring Officer perhaps by way of a staff briefing. Update standing documentation concerning Gifts, Hospitality and Interests, and the Anti-Fraud and Corruption Strategy to clearly identify who the Monitoring Officer is and what their role is.</p>	<p>2</p>	<p>Director of Corporate Services</p>	<p>Yes</p>	<p>A briefing note will be circulated to all members of staff to raise the profile of the Monitoring Officer, and standing documentation will be updated as suggested.</p>	<p>By 31 May 2006</p>

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Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
FACG - Internal Audit						
<p>Since the revisions to the committee structure Internal Audit does not report formally to Members.</p> <p>We understand that external audit reports are reported to Members at full Broads Authority meeting.</p>	<p>R11 As the Internal Audit function is a key element of the Authority's system of internal control which is reported in the Statement of Internal Control, members should formally receive the reports of the Internal Auditors.</p>	3	Director of Corporate Services	Yes	We will ensure that a summary of the findings and recommendations of Internal Audit are reported to the Broads Authority on an annual basis.	30 June 2006, and thereafter annually
FACG - procedure notes for business critical systems						
<p>As noted in the 2004/05 Statement on Internal Control, the task of updating procedure notes for business critical systems remains ongoing, due to the systems being upgraded.</p>	<p>R12 Ensure that procedure notes are up to date in advance of the 2005/06 audit to enable compliance with International Standards of Auditing. As business critical systems are upgraded, the associated procedure notes should also be revised and updated.</p>	3	Senior Finance Assistant (SL)	Yes	The procedure notes will be updated prior to the 2005/06 audit of accounts.	By 31 July 2006

Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
FACG - CIPFA Code on Treasury management						
The Authority does not produce a Treasury Management Strategy as it considers that the Investment Strategy is sufficient for its needs. Consequently, parts 5, 6 and 7 of CIPFA's 'Code of Practice on Treasury Management for Public Services' have not been adopted by the Broads Authority.	R13 Add to the Investment Strategy to cover key treasury management strategy matters. Fully adopt the CIPFA Code on Treasury Management.	2	Treasurer and Financial Adviser	In part	Until such time as the Authority needs to borrow, the current procedures are considered to be adequate and proportional. However, we will review the Investment Strategy for any weaknesses against the CIPFA Code on Treasury Management.	By 30 June 2006
FACG - positive assurance statement						
The final 2004/05 budget reported to Members did not include a positive assurance statement from the Chief Finance Officer about the robustness of estimates made for the purposes of the budget calculations. This is required by section 25 of the LG Act 2003.	R14 For the 2006/07 budget report, a positive assurance statement from the Chief Finance Officer regarding the robustness of estimates made for the purposes of the budget calculations should be included.	3	Treasurer and Financial Adviser/Head of Finance	Yes	The 2006/07 budget report was considered by the Broads Authority at its meeting on 24 March 2006. In future years the report will consider a statement from the Treasurer and Financial Adviser concerning the robustness of the estimates and level of reserves.	March 2007

Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
FACG - capital strategy, asset management plan						
<p>In relation to management of its assets, the Broads Authority does not have the following in place:</p> <ul style="list-style-type: none"> • a capital strategy; • an asset management plan; and • an annual programme of maintenance (monitored for backlogs). <p>We acknowledge that there are informal arrangements in place for the above areas and that an asset register and electronic inventory is maintained.</p> <p>We also note that the Authority does not prepare a capital budget as it currently expenses all capital from revenue. This position should be kept under review to ensure that it still remains appropriate to the Authority's circumstances.</p>	<p>R15 Formally prepare a capital strategy, asset management plan, and maintenance strategy. Keep the need for a capital budget under review.</p>	<p>2</p>	<p>Treasurer and Financial Adviser/ Director of Corporate Services</p> <p>Director of Countryside Management/ Director of Waterways</p>	<p>Yes</p>	<p>The Authority will prepare an overview Capital Strategy.</p> <p>The Authority will develop an Asset Management Plan, identifying future costs of maintenance and replacement for all assets, using GIS to map structures, to be used as the basis for preparing an annual maintenance programme.</p>	<p>By 31 July 2006</p> <p>By 31 December 2006</p>

Findings	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Best Value Performance Indicators - BVPI 109a, b and c						
Errors were identified in the manual calculation for BVPI 109a, 109b and 109c (processing planning applications). The figures reported in the Best Value Performance Plan did not agree to the ODPM return which collects the same data.	R16 Review the manual calculation and reconcile results to the ODPM return for BVPI 109a, 109b and 109c.	2	Director of Corporate Services		The figures have been reviewed and reconciled to the ODPM return.	