

Annual Audit Letter

November 2007



# Annual Audit Letter

**Cotswolds Conservation Board**

**Audit 2006/07**

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; and
- 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 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**

Your appointed auditor has prepared this report to summarise the Audit Commission's assessment of the Board. The report draws on audit and performance assessment work completed during the year.

In this report, the Commission summarises findings and conclusions from the statutory audit which the appointed auditor has previously reported to you. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, exercise their professional judgement independently of the Commission (and the audited body). Findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; auditors take no responsibility to any member or officer in their individual capacity, or to any third-party.

### **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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## Purpose, responsibilities and scope

- 1 This report provides an overall summary of the Audit Commission's assessment of the Board. It draws on the findings and conclusions from the audit of the Board undertaken during the year.
- 2 We have addressed this letter to members as it is the responsibility of the Board to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Board in meeting its responsibilities.
- 3 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition the Board is planning to publish it on its website.
- 4 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Board's accounts; and
  - whether the Board has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion).
- 5 We have listed the reports issued to the Board relating to 2006/07 audit at the end of this letter.

## Board's use of resources

### Value for money conclusion

- 6 As your appointed auditor I am required to conclude whether I am satisfied the Board has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 7 This year we issued an 'except for' value for money conclusion. This means in effect that the Board has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources but with a limited number of exceptions. The criteria for which the Board did not have proper arrangements are:
  - a medium-term financial strategy and budgets that are soundly based and designed to deliver its strategic priorities; and
  - arrangements to ensure that its spending matches its available resource, further detail is provided within paragraph eighteen below.
- 8 Our assessment this year indicates significantly improved arrangements in place. Two of the relevant Audit Commission criteria were not achieved in 2006/07, compared with four criteria not achieved in 2005/06. The key findings from our work on these four criteria are summarised in the paragraphs below.
- 9 Further details of the criteria we used and our findings, together with an agreed action plan, may be found in our report to those charged with governance provided to the Board in September 2007. The Board aims to implement the agreed actions by March 2008, leading potentially to an unqualified value for money conclusion in due course.

### Ensuring compliance with established policies, procedures, laws and regulations

- 10 The Board has taken a number of important steps during the year to ensure that it has suitable arrangements in place to maintain a sound system of internal control. A responsible finance officer is now in place in accordance with the Board's Establishment Order and Section 151 of the Local Government Act 1972 and this appears to be working effectively. The terms of reference for the Executive Committee have been revised in 2006/07 to include responsibility for audit, providing suitable and effective arrangements.

- 11 The Board appointed internal auditors in February 2006 and a strategic audit plan was agreed. A full programme of planned work for 2006/07 has been completed and a final report was issued to the Executive Committee in April 2007. We have yet to fully assess the adequacy and effectiveness of their work and have recommended that an internal quality assessment should be undertaken by the Board, to which we can refer.
- 12 The Board has had a Monitoring Officer in place since December 2004 and obtains legal advice under contract from Cotswold District Council and from an external legal firm. Legal issues relating to each Board report are considered by the report author, Monitoring Officer and the Director, providing an appropriate level of assurance of compliance with legal requirements. The legal and financial framework for the Board has clarified significantly during the year not least due to the improved arrangements now in place.
- 13 The arrangements in place are notably improved since the previous year and the criterion is now met.

## **Managing financial and other resources**

- 14 A Financial Memorandum of Agreement is in the final stages of negotiation between the Board and its main funding partners including Natural England and local authorities. Despite pressure by the Board and others, the agreement has been delayed by strategic changes at a national level brought about by the merger of the Countryside Agency, English Nature and the Rural Development Service to form Natural England.
- 15 A medium term financial strategy is not yet in place. The lack of guidance from funding partners on the level of their future funding levels makes it difficult for the Board to predict ongoing financial needs and set confident spending plans. Nevertheless, officers have been working on the development of a medium term financial strategy. This will be developed further once a Financial Memorandum of Agreement is achieved.
- 16 The 2007/08 budget reported to members includes a positive assurance statement from the responsible finance officer in accordance with the requirements of section 25 of the Local Government Act 2003.
- 17 Despite the best efforts of the Board to manage financial and other resources, arrangements are not yet fully in place and the criterion is not met.

## **Ensuring spending matches available resources**

- 18 The Director and Finance Officer consider the Board's reserves to be inadequate for the efficient operation of the Board as stated in the explanatory foreword in the 2006/07 statement of accounts and the budget statement to the Board in March 2007. The absence of reserves is due in part to historical reasons, since reserves were neither inherited from the predecessor body nor provided centrally on the creation of the Board.

- 19 There are in addition, constraints on the use of government grant monies by Natural England. The Board is actively seeking to negotiate a change to the current funding regime with Natural England and the partner local authorities, which would potentially lead the way to sounder financial management and the provision of an appropriate level of reserves. For 2006/07, the criterion is not met.

## **Managing performance against budgets**

- 20 The Executive Committee receives budget monitoring information that is accurate, relevant and understandable. Budgets are profiled where possible and senior officers review performance against the business plan regularly. Data is up to date when reported. Reports to the Executive Committee now show the original and revised budgets and explanations for variances against the original approved budget.
- 21 No formal guidance is available for budget holders, but we have accepted that budgets are monitored closely by the Director and Business Planning and Project Development Officer.
- 22 The Board operates most of its financial systems, together with committee support services, monitoring officer, personnel, legal support and secretarial services, under service level agreements with Cotswold District Council. These agreements, except the agreement with legal support, are all still in draft form. We understand that work is in hand to address this omission. We were able to confirm the arrangements with Cotswold District Council. Overall, the criterion is now met.

## Audit of the accounts

- 23 As your appointed auditor I have issued an unqualified opinion on the Board's accounts on 28 September 2007. Before giving my opinion, I reported to the Executive Committee on the issues arising from the 2006/07 audit. The report confirmed our view that the Statement on Internal Control for 2006/07 was prepared in accordance with proper practice. In addition, we provided a detailed report to officers.
- 24 The format of the accounts changed significantly for 2006/07, as required by the 2006 Statement of Recommended Practice (SORP). A number of material presentational errors were corrected during the course of the audit, in most cases related to the SORP changes. In addition, following the receipt of technical advice received, a material adjustment was required to the accounts to adjust the accounting treatment of a pension creditor and pension reserve included within the balance sheet. Further changes to the format of the accounts may be expected in the accounts for the current year to reflect a form of presentation being agreed with National Park Authorities.

## Closing remarks

- 25 We have discussed and agreed this letter with the Director and Finance Officer. We will present the letter at the Executive Committee on 29 November 2007 and a copy should then be provided to each Board member.
- 26 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Board during the year.

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**Table 1      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit plan	May 2006
Report to those charged with governance	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	November 2007
Annual audit letter	November 2007

- 27 The Board has taken a positive and constructive approach towards the audit work, and I wish to thank the Board's staff for their support and co-operation during the audit.

**Richard Lott**  
**District Auditor**

November 2007