



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit 2007/2008

September 2008

Author: Ceri Stradling

Ref: 755A2008

Audit of Accounting Statements – Report to Those Charged with Governance

Brecon Beacons National Park Authority

It is my intention to issue an unqualified auditor's report on the accounting statements and related notes. There are however a number of significant matters to report.

Contents

Summary	4
Detailed Report	
I have some concerns about the qualitative aspects of your accounting practices and financial reporting specifically in relation to your budgetary control procedures	6
There are no uncorrected misstatements	6
I do not expect to modify the standard auditor's report	7
I did not identify any material weaknesses in your internal controls, however some significant control weaknesses need to be addressed	7
There are no other matters which I am required by other ISAs to report to you	8
There are three other significant audit matters of governance interest to report	8
Appendices	
Final Letter of Representation	10
Summary of corrections to draft financial statements	14

Status of this report

This document has been prepared for the internal use of Brecon Beacons National Park Authority as part of work performed in accordance with statutory functions, the Code of Audit and Inspection Practice and the 'Statement of Responsibilities' issued by the Auditor General for Wales.

No responsibility is taken by the Wales Audit Office (the Auditor General and his staff) and, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales (and, where applicable, his appointed auditor) is a relevant third party. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

Summary

1. Brecon Beacons National Park Authority (the Authority) is responsible for the preparation of accounting statements and related notes that present fairly its financial position as at 31 March 2008, and its income and expenditure for the year then ended. I am required to give my opinion on the accuracy and fairness of the statements.
2. The Authority submitted a Statement of Accounts to me before the 30 June 2008 deadline and I have now substantially completed the audit of the accounting statements and related notes. I do not seek to obtain absolute assurance that the accounting statements and related notes present fairly the financial position of the Authority, or assurance that they are accurate in every regard, but instead adopt a concept of materiality. In planning and conducting the audit of the accounts, I seek to identify material errors in the accounting statements and related notes (ie, those which might be misleading to a reader).
3. The levels at which we judge such errors to be material for the Authority are £64,000 for income and expenditure items and balance sheet items relating to working capital and £37,000 for other balance sheet items. Whether an item is judged to be material is not only affected by quantitative issues but can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. Now that the audit is substantially complete, this report details the key matters arising from it. These matters must be communicated to those charged with governance, in accordance with International Standard on Auditing (ISA) 260, prior to giving an opinion on the accounting statements and related notes. More detailed matters arising and recommendations will be agreed with officers.
5. ISA 260 requires auditors to report to those charged with governance the following matters before they give an opinion on the accounting statements and related notes:
 - relationships that may bear on the auditor's independence;
 - audit planning information; and
 - findings from the audit, including the auditor's views on the qualitative aspects of the entity's accounting and reporting.

-
6. The first two matters were reported to you in the Regulatory Plan for 2007/2008. This report has been prepared to discharge my responsibilities with regard to the third point. My findings are:
- I have some concerns about the qualitative aspects of your accounting practices and financial reporting, specifically in relation to your budgetary control procedures;
 - there are no uncorrected misstatements;
 - I do not expect to modify the standard auditor's report;
 - I did not identify any material weaknesses in your internal controls, however, some significant control weaknesses need to be addressed;
 - there are no other matters which I am required by other ISAs to report to you; and
 - there are three other significant audit matters of governance interest to report.
7. It is my intention to issue an unqualified auditor's report on the accounting statements and related notes once the Authority has provided me with the Letter of Representation as set out in Appendix 1.

I have some concerns about the qualitative aspects of your accounting practices and financial reporting specifically in relation to your budgetary control procedures

8. In the course of the audit, I consider qualitative aspects of the financial reporting process. I evaluate the information provided by the accounting statements and related notes to determine if it is relevant, reliable, comparable, material and easy to understand.

Budgetary control arrangements need to be improved

The Authority has developed budgetary control procedures which have helped to ensure that the Authority maintains its expenditure within agreed budgets in recent years. However, the following issues were identified for 2007/2008:

- The Authority's Financial Procedures state that budget reports must be submitted to the Internal Review Committee (IRC) on a quarterly basis. However this was not complied with in 2007/2008, as the first report did not go to the Committee until December 2007 which reported the position as at October 2007.
- On a monthly basis, the Finance Department requests explanations from departments for significant variances compared to budget. However, departments do not always respond to these requests (eg, in December 2007, five of the 30 budget holders who were contacted did not respond).
- The Authority continues to underspend and in 2007/2008 there were a number of significant underspends and overspends on the various budget heads. The Authority needs to revisit the entire budget to ensure it is maximising value for money.

We will work with officers to develop an action plan to improve arrangements.

There are no uncorrected misstatements

9. I report to you all uncorrected misstatements other than those of a clearly trivial nature (trivial is defined as entirely inconsequential, whether taken individually or in aggregate, either quantitatively and/or qualitatively). On the basis of our standard methodology, the financial limit for what I consider trivial has been calculated at £3,000 for income and expenditure items and balance sheet items relating to working capital, and £2,000 for other balance sheet items.

There are no uncorrected misstatements

A number of non-trivial errors were identified in the course of the audit. Appropriate amendments have been made by management in all cases. A summary of these corrections is shown in Appendix 2.

I do not expect to modify the standard auditor's report

10. I report any proposed modifications to the standard auditor's report, to ensure that you are aware of the reasons for the modifications and have the opportunity to provide any further information and explanations in respect of the matter(s) giving rise to the modification. The report comments on whether:
- the accounting statements and related notes present fairly the financial position as at 31 March 2008 and its income and expenditure for the year then ended; and
 - the Statement of Internal Control is compliant with applicable guidance and consistent with our knowledge and understanding of the Authority's arrangements.

There are no modifications to the auditor's report

On the basis of my audit work, no matters have been identified that would require any modification to the audit opinion.

I did not identify any material weaknesses in your internal controls, however, some significant control weaknesses need to be addressed

11. A material weakness in internal control is defined by ISA 260 as 'a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements'.
12. I do not, however, normally report information to you concerning a material weakness you know about and have taken appropriate action to correct, unless the weakness is symptomatic of broader weaknesses in the overall control environment and there is a risk that other material weaknesses may occur.
13. You should be aware that I do not provide a comprehensive statement of all weaknesses that may exist in the internal controls, or of all improvements that may be made, but have addressed only those matters that have come to my attention as a result of the audit procedures performed.
14. Although we have not identified any 'material' weaknesses in your internal controls, there are a number of 'significant' control weaknesses which need to be addressed.

There are a number of significant control weaknesses which need to be addressed

In our opinion, the weaknesses below have not resulted in a 'material' misstatement in the 2007/2008 financial statements. However, the weaknesses are significant and improvements are required.

- Controls within the creditor payments system need to be improved. Our testing identified 15 invoices from a sample of 40 where the invoice had been paid without the required level of authorisation as per the Authority's financial procedures. In addition, 13 invoices within the same sample had no purchase order.
- A review of journals identified instances where only one member of staff authorised the journal. The Authority's financial procedures do not include any guidance for authorising journals but it is good practice for a minimum of two staff to be involved in the process.
- The Authority has not developed procedures for reviewing its capital expenditure to identify expenditure that is 'non enhancing'. In 2007/2008 an amount of £27,000 had been added to the value of Craig y Nos car park, despite it being incurred prior to a revaluation. The 2007/2008 financial statements have been amended for this error.

We will work with officers to develop an action plan to improve arrangements.

There are no other matters which I am required by other ISAs to report to you

15. Other auditing standards require us to communicate to you any other specific circumstances including where:
- I suspect or detect fraud, even if the potential effect is not material to my audit of the accounting statements and related notes, unless I am prohibited from doing so under money laundering regulations; and
 - the Authority's accounting statements and related notes and other information in the Statement of Accounts are inconsistent.

There are no other matters arising

There are three other significant audit matters of governance interest to report

Fixed asset ownership

Last year, we reported that the Authority should review all of its assets to ensure that they are legally owned by the Authority. Despite agreeing to it last year, officers have not taken the appropriate action.

Statement of Internal Control

In approving the 2007/2008 Accounts, the Chief Executive and Chairman of the Authority signed the Statement of Internal Control which includes a number of specific declarations. In order to make these declarations, it is necessary for both parties to gain assurance over the operation of the internal control system. A significant amount of this assurance is provided by the work of Internal Audit. However, not all Internal Audit reports have been presented to Members in 2007/2008 and it is therefore unclear how assurances have been obtained.

Members are those charged with the governance of the Authority and they should receive all internal and external audit reports.

Prior-year recommendations

A number of recommendations made in previous year audit reports have not been addressed this year. These recommendations generally related to the system of internal control and the detail of these issues is outlined in the table below paragraph 14 in this report.

The failure to satisfactorily respond to our previous recommendations, together with some of the other significant issues we have identified, has resulted in us having to undertake additional audit work. This will result in an additional audit fee being charged for this year.

DRAFT

Appendix 1

Final Letter of Representation

Ceri Stradling
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

[Date]

2007/2008 Statement of Accounts of Brecon Beacons National Park Authority

This letter is provided in connection with the audit of the accounting statements and related notes of the Brecon Beacons National Park Authority (the Authority) for the year ended 31 March 2008 for the purpose of expressing an opinion as to whether they present fairly, in all material respects, the financial position of the Authority as at 31 March 2008 and of the result of its operations and its cash flows for the year then ended in accordance with the Accounts and Audit (Wales) Regulations 2005 and the Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice 2007 (the SORP).

Overall representations

All the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records.

There are no pooled budget projects arising from any partnership agreements entered into under section 31 of the Health Act 1999, associates, joint ventures or joint arrangements other than those disclosed in the accounting statements and associated notes.

The Authority has complied with all conditions imposed by relevant grant paying organisations and can reasonably expect to receive the amounts of grant included within the accounts.

The Authority has complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the accounting statements and related notes.

The accounting statements and related notes are free of material misstatements, including omissions.

All books of account and supporting documentation and all minutes of meetings of the Authority have been made available to you.

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

The measurement methods, including the related assumptions, used in determining fair values are appropriate and have been applied consistently. Disclosures relating to fair values are complete and appropriate.

The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the accounting statements taken as a whole.

Assets

General

All assets included in the balance sheet were in existence at the balance sheet date and owned by the Authority, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all tangible assets owned by the Authority.

Fixed assets

All assets over the deminimus level are capitalised. They are revalued (every five years via a rolling programme). Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Authority's operations.

Current assets

On realisation in the ordinary course of the Authority's operations, the other current assets in the balance sheet are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Authority which are known, or may be expected, to be irrecoverable.

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

Liabilities

General

All liabilities, both actual and contingent, have been recorded and disclosed as appropriate as well as all guarantees that we have given to third parties.

There is no pending litigation which may result in significant loss to the Authority, and which has not been disclosed in the accounting statements and related notes, either as current or contingent liabilities.

All obligations under finance leases or hire purchase contracts have been disclosed in the accounts.

All unfunded benefits (such as discretionary added years) have been considered in the compilation of the FRS 17 figures included in the accounting statements and related notes.

Results

Except as disclosed in the accounting statements and related notes, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Authority, or circumstances of an exceptional or non-recurring nature.

Internal control

I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error. There have been no:

- irregularities involving management 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; and
- communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

Post balance sheet events

Except as disclosed in the accounting statements and related notes, there have been no material changes since the date of the balance sheet affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounting statements and related notes, are of such importance that they should have been brought to the notice of the auditor.

Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the fair presentation of the accounting statements and related notes in accordance with the applicable financial reporting framework.

We acknowledge our collective responsibility for the preparation of the Statement of Accounts, which has been approved by the Authority.

We have disclosed to you all known or possible non-compliance with laws and regulations whose effects should have been considered when preparing the accounting statements and related notes.

There are no other material transactions with related parties (as defined by FRS 8 and the SORP), other than those recorded and disclosed in the accounting statements and related notes.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect fraud and have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's accounting statements and related notes communicated to the Authority by employees, former employees, regulators or others.

We have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:

- those charged with governance;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the accounting statements and related notes.

We confirm, to the best of our knowledge and belief, that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Signed by

S.151 Officer

Leading Member

Date

Date

Appendix 2

Summary of corrections to draft financial statements

Nature of correction	Reason for correction
The depreciation charge on furniture and equipment was £8,371 understated due to a formulae error in the fixed asset spreadsheet. The statements were amended.	To fully comply with the capital accounting requirements of the Statement of recommended Practice (SORP) for Local Authorities.
£51,357 was incorrectly included in 'other creditors' when it should be disclosed in 'Local Government creditors'. The statements were amended.	To ensure that the creditors balances are fairly stated.
The Debtors balance was overstated by £26,693 due to some transactions not being posted to the cash book despite being received in-year. Cash balances were understated by the same amount. The statements were amended.	To ensure that the debtors balances are fairly stated.
The debtors and Government Grants Deferred (GGD) balances were overstated by £11,076, as this should have been written off in 2007/2008. The statements were amended.	To ensure that the balance sheet is fairly stated.
The debtors balance and Receipts in Advance (RiA) balances were overstated by £10,500, due to balances not relating to 2007/2008 being included. The statements were amended.	To ensure that the debtors balances are fairly stated.
The figures included for each unitary authority in the levies note within the income and expenditure account for 2007/2008 was incorrect although the overall total is correct. The statements were amended.	To ensure the levy figures are correctly stated for each unitary authority.
£27,461 had been added to the value of Craig y Nos car park, despite the expenditure being incurred just prior to a revaluation. The 2007/2008 financial statements have been amended for this error. The statements were amended.	To fully comply with the capital accounting requirements of the SORP for Local Authorities.
A significant number of minor amendments were made to correct incorrect arithmetic within the statements or include additional disclosures.	To fully comply with the SORP for Local Authorities.



Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ
Tel: 029 2032 0500
Fax: 029 2032 0600
Textphone: 029 2032 0660
E-mail: info@wao.gov.uk
Website: www.wao.gov.uk