

Annual Audit Letter

November 2005



Annual Audit and Inspection Letter

Yorkshire Dales National Park Authority

Audit 2004-2005

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Key messages

Financial standing

- 1 The funding provided to the Authority by the Government is to be frozen for the next two years. This will place great pressure on the Authority's budget. Officers are working to identify where savings can be made. It is essential that close control is kept on expenditure whilst at the same time ensuring that service delivery is maintained.

Administration of the planning function

- 2 Our work regarding the operation of the Authority's planning and development has identified that:
 - the Planning Committee lacks information on the potential and actual consequences of its decisions on the sustainability of the National Park. The Authority does not:
 - monitor individual decisions;
 - monitor the cumulative impact of decisions;
 - assess the impact of development on the environment, economy or population of the National Park;
 - the Committee's decisions are not always effective in delivering the Authority's environmental, social and economic objectives and sometimes are inconsistent with those objectives; for instance, the extent of development allowed outside settlements and the granting of permissions which have led to the loss of employment sites;
 - every member of the Authority sits on the Planning Committee. This means the Authority cannot demonstrate it has properly separated the regulatory and planning roles from its policy-making function. We are concerned at the refusal of members to accept our audit recommendation in this regard;
 - the Authority's development control process is becoming inconsistent and unpredictable. As a consequence, applicants, objectors and other parties may be uncertain that decisions made by the Authority are based on the fair and proper assessment of relevant considerations which they have a right to expect; and
 - the process is not efficient and so causes unnecessary costs arising from additional officer and member time and legal advice.

Background

The purpose of this letter

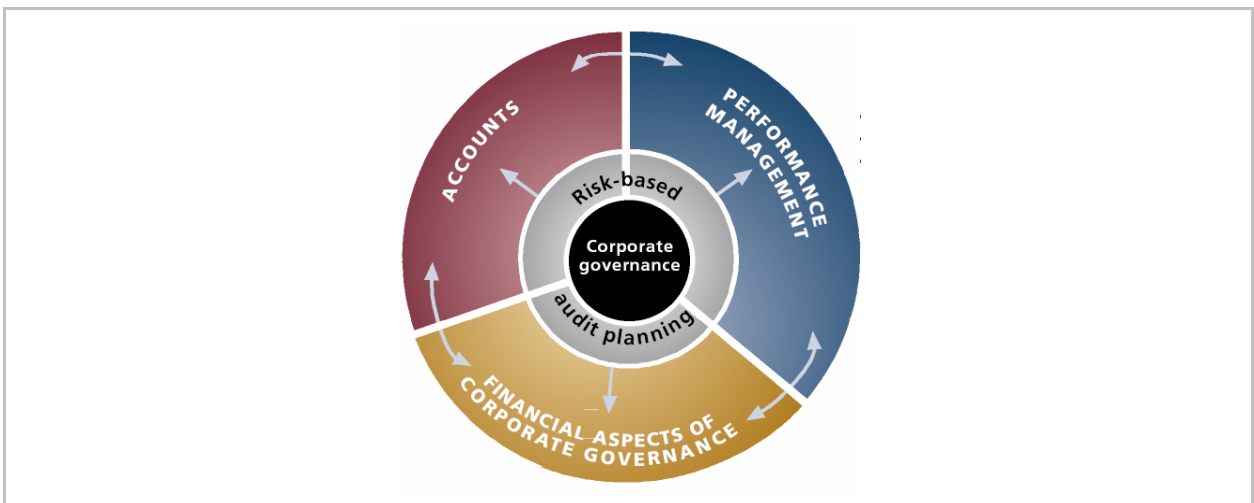
- 3 This is our Audit and Inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Authority's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Authority.
- 4 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 1 for information.
- 5 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 6 Appendix 2 provides information about the fee charged for our audit and inspections.

Audit objectives

- 7 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 8 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Inspection

- 9 Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections that:
- enable the Authority and the public to judge whether best value is being delivered;
 - enable the Authority to assess how well it is doing; and
 - identify failing services where remedial action may be necessary.
- 10 We have not carried out any inspection work for the Authority this year.

Performance

Best value performance plan

- 11 Our duty under the Local Government Act 1999 is to audit your best value performance plan. This work is complete and no matters have arisen that we wish to report to members.

Audit Commission inspections

- 12 We have not carried out any inspection work this year.

Accounts

- 13 The audit of the Authority's accounts is complete and an unqualified audit opinion was given on the Authority's accounts on 18 October 2005.

Reporting to the Authority

- 14 The auditing standard which applies to our audit of your accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance', requires us to report issues arising from our audit to members.
- 15 Our work in respect of the financial statements has not identified any issues of sufficient significance to require a formal report. I have written to the members of the Audit and Review Committee to this effect.

Financial aspects of corporate governance

Financial standing

- 16 The Authority kept within its budget for 2004/05 and needs to ensure that it does so in the current year.
- 17 In 2004/05, the Authority underspent its net budget of £4.724 million by £0.249 million. This is largely accounted for by additional grant income received and an accumulation of small net underspends across a range of budgets.
- 18 In 2005/06, to date expenditure is broadly in line with the budget.
- 19 A number of pressures are building up that will impact on the Authority's future financial standing. Most notable of these is DEFRA's statement that there will be no increase in the funding it provides for 2006/07 and 2007/08. The 2005/06 budget was balanced through utilisation of the revenue balance, but the Authority does not hold sufficient balances to support the budget in future years. It is important for the Authority's financial wellbeing that it strives to maintain an adequate working balance in line with its financial strategy.
- 20 We note that members and officers are currently reviewing the budget with the aim of identifying the scope for savings. As well as identifying potential savings, it is important that the potential for additional income is also considered, be this through the identification of sources of additional grant income or through fees and charges or sponsorship.

Action by the Authority
<i>Ensure that a working balance in line with the financial strategy is maintained.</i>
<i>Seek to increase income from current and potential additional sources of funds.</i>

Systems of internal financial control

- 21 The Authority has arrangements in place to satisfy itself that its systems of internal control are effective. Our work has not identified any weaknesses to which we wish to draw the attention of members.
- 22 Internal Audit plays a key role in providing assurance that the Authority has an adequate internal control framework. We rely as far as possible on Internal Audit and we are satisfied with the quality and coverage of their work.

Standards of financial conduct

- 23 It is the Authority's responsibility to ensure that its affairs are managed in accordance with proper standards of financial conduct.
- 24 In addition, the primary responsibility for the prevention and detection of fraud, and taking reasonable steps to limit the opportunity for corrupt practices, lies with the Authority. Our role is to review your arrangements. This year we have considered the Authority's overall arrangements, as well as the arrangements in place for the administration of the Authority's planning function.

Overall arrangements

- 25 From our work we note that the Authority has procedures in place designed to ensure proper standards of conduct are maintained. Scope exists for improving arrangements by clarifying and making access to the Authority's constitutional arrangements more widely available.

Administration of the planning function

- 26 We first reviewed the Authority's arrangements for administering the planning system in 2000. In our report (*'Probity in Planning'*) we expressed concerns at the way development control was conducted. The report found there was:

'a conflict between the national remit of members of the National Park Authority to conserve and enhance the environment and local concerns as representatives of their communities. This conflict leads some members to favour applications from the 'local' community and in doing so to give less weight to the strict planning merits and planning policy considerations applicable. As a result, relations between members and officers and between different groups of members have been strained. In addition, the workload of officers is increased as extended debate takes place in (the Planning) Committee or applications are returned to the Committee in line with the referral back process'

- 27 The Authority produced an action plan to tackle the recommendations of the report. In 2002, when the planning service was inspected, most of the earlier report's concerns had been addressed. As part of our audit planning discussions with officers, they indicated that the situation had reverted to that we had found in 2000. Following a short follow-up review in 2003, we concurred with the officers' view and it was agreed that we would undertake further, more detailed work.
- 28 The extent to which officer recommendations are overturned is of concern to us, for the following reasons.
- The planning service may cease to be predictable and consistent for the applicant and objector.
 - The level of disagreement generates substantial extra work for officers in preparing supplementary reports when decisions are referred back.
 - Extra costs are incurred if legal opinion has to be sought on the reasoning being used to justify decisions.

- The fact that most recommendations overturned lead to approvals means that such decisions do not go to appeal (there being no third party right of appeal). The only ways they can be challenged are through interventions by the Secretary of State, Judicial Review or the Ombudsman. Such interventions, though very rare, could lead to substantial costs to the Authority if it loses.

29 It is an essential feature of the planning system that members can disagree with officers. Planning involves the weighing of several factors in coming to a decision. The costs and benefits of these factors usually fall on different people and it is right that members have control over such decisions. National park authorities occupy a unique position in the planning system in that planning control has been taken from the direct responsibility of elected councillors and placed with an appointed body. Such an arrangement has the potential to create tensions but, as the Pullen report (Report of a review of English National Park Authorities, DEFRA, July 2002) notes, it does have advantages and works well in other national park authorities.

30 We examined the pattern of decision-making by the Planning Committee and examined in detail the decisions where members have overturned officer recommendations. We classified applications and decisions to understand the sorts of applications where there are disagreements in the context of the overall workload of the Planning Committee. We interviewed members and officers and spoke to other organisations with an interest, including Government Office for Yorkshire and Humberside, DEFRA, the Countryside Agency, English Heritage, English Nature, the Council for National Parks and the Yorkshire Dales Society. From the evidence we gathered we have come to the following conclusions.

Basis for decisions

31 The Committee lacks information on the potential and actual consequences of its decisions on the sustainability of the Park and does not:

- monitor individual decisions;
- monitor the cumulative impact of decisions; or
- assess the impact of development on the environment, economy or population of the National Park.

32 In consequence, decisions are based on an impressionistic view of the Park, not informed by monitoring and review. The Committee gives disproportionate weight to unsubstantiated economic and social considerations, whilst discounting evidence of harm to the environment. Members are not giving due regard to the plan-led approach and to whether applications meet policy tests. They sometimes rely on criteria, such as planning gain and personal circumstances, on which it is difficult to be consistent.

Effectiveness of decision-making

- 33** The Planning Committee's decisions are not always effective in delivering the Authority's environmental, social and economic objectives and indeed some are inconsistent with those objectives. For example:
- amounts of development, well above structure plan requirements, have been permitted, a significant amount outside settlements. For the period covered by our review, the Committee approved 76 per cent of the applications it considered for development outside settlements defined in the Local Plan, though officers only recommended 49 per cent for approval and the Authority's and national policy is that development outside settlements should only be allowed in exceptional circumstances;
 - over the 19-month period examined, 166 houses were granted planning permission but only 17 were affordable, whilst over 100 houses were granted permission to extend, making them less affordable; and
 - developments have been approved resulting in loss of employment sites. Of the decisions contrary to officer recommendations that we examined, 20 per cent involved employment land or sites and for 75 per cent of these, which all involved existing employment sites, alternative uses were approved leading to a loss of employment sites, or employment uses were refused.

Decision-making process

- 34** Having all members of the Authority on the Planning Committee confuses the regulatory, planning function of the Authority with its policy making function, whereas they ought to be kept separate.
- 35** The development control process is becoming inconsistent and unpredictable. This is causing uncertainty and:
- officers find it difficult to give reliable advice to potential applicants; and
 - decisions depend on which members are present on the day rather than the issues at stake.
- 36** The inconsistency can cause unfairness to applicants, objectors and third parties.
- 37** The process is not efficient and so causes unnecessary costs of officer and member time and legal advice. These costs are estimated to be over £20,000 over the last four years. Although we have seen no evidence to suggest there is a high risk at present, there is a possibility of intervention by the Secretary of State or courts and the Authority incurring additional costs as a result.

The way forward

- 38 We presented our interim findings to two seminars of members and our report and associated action plan has been discussed by both the Planning Committee and the full Authority. We are concerned to note that members have declined to accept our recommendations in relation to the size of the Planning Committee and the suggestion that they engage more with the citizens of the Park on planning matters. We note that since we reported the Authority has received its National Park Authority Performance Assessment Report. That report concurs with our view and emphasises the need for the Authority to reduce the size of its planning committee. We are of the view that the Authority should reconsider its decision not to accept our recommendation in this regard.

<i>Action by the Authority</i>
<i>Reduce the size of Planning Committee, whilst retaining balance.</i>

Legality of transactions

- 39 During the year, we reviewed the Authority's overall arrangements for ensuring the legality of its financial transactions. There are no issues that we wish to report to members.

Looking forward

Future audit and inspection work

- 40 We have an agreed plan for 2005/06 and the outcome of that work will be reported in next year's Annual Letter.
- 41 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Authority. We will continue with this approach when planning our programme of work for 2006/07. We have agreed a process to consider, with you, your improvement priorities in the light of the National Park Authority Performance Assessment and your own analysis, and develop an agreed programme of work.

Revision to the Code of Audit Practice

- 42 The statutory requirements governing our audit work, are contained in:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 43 The Code has been revised with effect from 1 April 2005. Further details are included in our 2005/06 Audit Plan. The key changes include:
 - the requirement to draw a positive conclusion regarding the Authority's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 44 This letter has been discussed and agreed with the Chief Executive and Chairman. A copy of the letter must be provided to all members.
- 45 Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work.

Availability of this letter

- 46 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Authority's website.

Mark Kirkham
District Auditor and Relationship Manager
November 2005

Appendix 1 – Audit reports issued

Table 1

Report title	Date issued
Audit Plan	March 2005
Letter on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Planning	October 2005
BVPP Opinion	October 2005
Regularity Memorandum	Pending

Appendix 2 – Audit fee

Table 2

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	4,900	4,900
Financial aspects of corporate governance	5,300	17,300*
Performance incl BVPIs	5,300	5,300
Total Code of Audit Practice fee	15,500	27,500

** Additional fee relates to the further audit work required in relation to the Authority's arrangements for the administration of planning and development control.*