

Smaller Bodies Annual Audit and Inspection Letter

December 2006



Annual Audit Letter

North of England Open Air Museum

Audit 2005/2006

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 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

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

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The purpose of this letter

- 1 The purpose of this Annual Audit Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the members of the North of England Open Air Museum Joint Committee (the Committee), it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

Respective responsibilities of the auditor and the joint committee

- 3 We have been appointed as the Committee's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 4 As the Committee's external auditors, we have a broad remit covering financial and governance matters. It is the Committee's responsibility to ensure that:
 - proper arrangements are in place for the conduct of its business; and
 - public money is safeguarded and properly accounted for.
- 5 Our role is to consider how the Committee is fulfilling these responsibilities.

The scope of our work

- 6 Our main responsibility is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - the Committee's accounts; and
 - whether the Committee has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The audit of the accounts

- 7 This year's audit was carried out in accordance with new International Standards of Auditing (ISAs). Our audit included specific work to understand the Joint Committees' management arrangements, its control environment and the risk of material misstatement in the financial accounts. This approach included the documentation and assessment of key controls within the main financial systems, particularly as they related to the production of material figures disclosed in the financial statements.
- 8 Beamish Museum benefits from regular Internal Audit coverage provided by Sunderland City Council, and we did not identify any significant weaknesses in systems of accounting and financial control. However, the current cash collection system does not readily provide management information or customer intelligence. As part of plans already in place to develop the visitor centre and deliver the 'Beamish Vision', the Committee might wish to consider more up to date IT solutions.
- 9 The draft financial statements were approved before the deadline of 30 June 2006, and were supported by comprehensive working papers. A number of amendments were identified during the course of the audit and these were set out in our report to those charged with governance. None of them had any impact on the reported surplus for the year but, to reduce the risk of errors in the future, we have recommended that officers improve the quality of internal checks prior to audit.
- 10 The revised accounts were approved on 8 September 2006 and we gave an unqualified opinion on the financial statements on 18 September 2006, well in advance of the deadline.

Use of resources

Financial position

- 11 The Museum's key financial targets are to:
 - break even in revenue terms each year;
 - continue to increase visitor numbers; and
 - maximise external sources of funding where appropriate.
- 12 There is effective budgetary control in place, responsive to emerging risks. Budgets are monitored very closely during the course of the year, and action plans are developed where a material variance arises or a deficit is forecast. In 2005/06, shortfalls in admissions and catering income were compensated for by cutting back on publicity. Insurance premiums and personnel recharges were also reviewed to reduce costs, with the net result that an outturn of £16,000 was achieved.

- 13 Total reserves and balances at 31 March 2006 were £2m, close to one third of annual expenditure. A policy on the level and nature of reserves and balances has been approved by members and is reflected in the medium term financial strategy, with the majority of accumulated reserves being earmarked to support the capital programme.
- 14 During our work we noted that the catering and retail surplus (after costs) seemed low at just over £1.23 per visitor. Officers explained that the existing facilities limit income generation in this area, but that options are being considered as part of the 'Beamish Vision' project. Plans are also in place to change the type of retail goods available at the Museum shop.

Value for money conclusion

- 15 In 2005/06 we were required, for the first time, to issue a specific conclusion on whether we are satisfied that the Committee 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 and requires the review of the following criteria agreed by the Audit Commission in relation to the arrangements for:
- monitoring and scrutiny of performance;
 - maintaining a sound system of internal control;
 - managing its significant business risks;
 - managing and improving value for money;
 - ensuring that spending matches its available resources;
 - managing performance against budgets; and
 - promoting and ensuring probity and propriety in the conduct of its business.
- 16 From our work we concluded that that most of the expected arrangements are in place and we identified particular strengths in respect of business planning, financial management and internal control. The Museum has a range of systems in place which track and manage performance.
- 17 However there is no formal, systematic process for identifying, managing and reporting significant business risk within the organisation. Officers could demonstrate that in practice significant business risks were being managed, but the lack of a clear risk management strategy, risk register or reporting mechanisms represent a significant issue for those charged with governance.
- 18 We therefore issued an 'except for' report on our value for money conclusion, and recommended that the Museum develop a structured way of evidencing risk management which is proportionate to its size and appropriate for the nature of the organisation. We understand that a draft risk management policy and strategy will be presented to the January meeting of the Joint Committee.

Beamish Development Trust

- 19 In accordance with regulations made under section 44 of the Charities Act 1993, we also act as external auditors for Beamish Development Trust. Our responsibility under these regulations is to audit the financial statements of the Trust and report on whether these present a true and fair view of the charity's state of affairs as at 31 March 2006.
- 20 This work was undertaken with no matters arising and an unqualified opinion was given in October 2006.

Looking Ahead

- 21 We have already agreed an outline audit plan and fee for 2006/07. This will be updated in the New Year following discussions with officers and review of documents to update our assessment of key risks. In addition to mandatory testing on financial statements and use of resources, we anticipate that the focus of our work will be to track progress on two main issues, namely:
- the 'Beamish Vision' project; and
 - proposals to form a limited company.

Closing remarks

- 22 This letter has been discussed and agreed with the Treasurer and Director of Museums. It will be presented to the Committee in January 2007, and copies provided to all members.
- 23 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in reports issued during the year. These are listed in the following table.

Table 1 Reports issued

Report	Date of issue
Audit Plan	May 2006
Annual Governance Report to the Joint Committee,	September 2006
Opinion on the financial statements and the VFM conclusion	September 2006
Engagement letter , opinion on the financial statements and Annual Governance Report to Beamish Development Trust	October 2006
Annual Audit Letter	November 2006

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- 24** The Committee has taken a positive and constructive approach to our work and I would like to take this opportunity to thank both staff and members for the assistance and co-operation provided during the course of the audit.

**Lynne Snowball
District Auditor**

December 2006