



INTERNAL AUDIT REPORT

Status: Final
Date Issued: 23 May 2025
Responsible Officer: Finance Manager

	Critical	Significant	Moderate	Opportunity
Findings	0	0	2	0
Overall audit opinion	Reasonable Assurance			

INTRODUCTION

The requirement for financial reserves is acknowledged in statute with local authorities needing to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. Reserves also function as a safeguard against unforeseen events and to address expected challenges. They are essential to the Peak District National Park Authority (the Authority) to help support service delivery. The Authority's 2024/25 budgeted net revenue expenditure was £7.97m.

The Authority has specific amounts as reserves for future National Park purposes or to cover contingencies which are not restricted by accounting rules or legal limitations (usable reserves). At 31 March 2024, total usable reserves per the Authority's statement of accounts was £9.971m, broken down as follows:

Usable reserve	£k
General Fund	369
Restricted Funds	139
Specific reserves (earmarked)	8,142
Capital receipts reserve	1,321
Total	9,971

Organisations need to have in place processes which assess the adequacy of reserves and ensure there are clear processes in place for their establishment and use. CIPFA's Bulletin 13, issued in March 2023, provides further detail to support the effective management of reserves and balances, in a local authority setting.

OBJECTIVES AND SCOPE

The purpose of this audit was to provide assurance to management that procedures and controls within the system ensure that:

- ▲ Appropriate procedures are in place to assess the adequacy of reserves
- ▲ All usable reserves are subject to appropriate review and approval

KEY FINDINGS

The Financial Reserves for the Peak District National Park (PDNPA) are classified into 4 different types: general reserves, capital reserves, specific reserves and restricted reserves. The general reserves are calculated on the basis of a recommended level which is 2% of net expenditure (approximately £160k), with a trading contingency of £100k, giving a base level of £260k. For the 2022/23 Statement of Accounts, the general reserve balance was £616k. Although specific reserves are used to support individual service areas, they should be available to support any Authority priority if required for operational and strategic requirements. Capital reserves are only available to support capital expenditure, and Restricted reserves can only be used for specific purposes. For the 2024/25 financial year, the Authority held a total of £9.913m in reserves, with £5.737m (58%) of this held in specific reserves used by the service areas. It is these specific reserves which were reviewed as part of this audit.

Local Authorities are required to follow certain regulations and accounting standards when managing their finances, including how they hold and use reserves. Under the Local Government Act 2003, the Chief Finance Officer (CFO) must report on the adequacy of reserves as part of the budget-setting process. Although the PDNPA does not currently have a reserves policy, reserve levels and their adequacy are reviewed annually as part of the budget setting process.

We established that current specific reserve levels and any potential planned use of these reserves are reviewed as part of the mid-year review and quarter three reviews held with budget holders. A mid-year review form is completed and includes a section for planned use of reserves to be detailed up to year end. However, we found that there were no formal processes for determining or reviewing the adequacy of the individual specific reserve levels, nor was there any formal process followed within the service area and no corporate guidance was available on what specific reserve levels should be. The Authority recognise that several specific reserves would benefit from being replenished, but it is not currently financially viable.

We confirmed that reserves are monitored during the year as part of the standard budget monitoring process at the mid-year point quarter three and year end. The Finance Manager is aware of potential or planned uses of some specific reserves, as indicated during the budget monitoring cycles but no transactions to move funds are carried out until the year end closedown process. Allocations from corporate reserves are tracked by the Finance Manager, and SMT are updated regularly on the rolling balance. The Audit, Budget & Project Risk group meet four times a year and they are also updated on the reserves position. Authority signs off the movements to and from reserves as part of the outturn approval in July annually.

The Head of Service and Finance Manager both have the delegated authority to use reserves for specific projects up to the value of £30k, although anything over the value of £50k would have to be approved at the Resources Management meeting and anything over £150k would require Authority committee sign off.

OVERALL CONCLUSIONS

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. Our overall opinion of the controls within the system at the time of the audit was that they provided Reasonable Assurance.

1 There is no policy on the use of reserves

Moderate**Control weakness**

The Authority does not have a reserves policy in place.

What is the risk?

Reserve levels are not managed appropriately potentially affecting the financial sustainability of the Authority.

Findings

Local Authorities are required to follow certain regulations and accounting standards when managing their finances, including how they hold and use reserves. Under the Local Government Act 2003, the Chief Finance Officer (CFO) must report on the adequacy of reserves as part of the budget-setting process. There is currently no reserves policy for the Authority. A reserves policy is crucial for the Authority in order to provide a structured approach to managing the financial resources necessary to ensure financial stability, support service delivery, and mitigate risks. We did find that there is a section in the budget report confirming that general reserves have been reviewed and exceed the minimum threshold of £260k for the 2024/25 financial year. However, there is no longer term strategy in place for the use of reserves or the levels required.

Agreed action

The Authority will implement a reserves usage policy to be circulated to Senior Management and Budget Managers to provide greater control around expenditure and to ensure the Authority have enough operational reserves to deliver services & contingency to deal with the unexpected. In addition to a new policy, we will restructure our reserves to enable our future financial stability.

Responsible officer: Finance Manager**Timescale: 30 September 2025**

2 Reserve levels are not regularly reviewed or assessed for adequacy

Moderate

Control weakness

The adequacy of some specific department reserve levels are not reviewed

What is the risk?

Reserve levels are insufficient to cover unexpected events resulting in financial challenges, or reserve levels are too high resulting in unnecessary service reductions.

Findings

Reserve levels and any potential use of reserves is discussed with the Finance Manager as part of the mid-year review and year end process with budget holders. However, we found that there were no formal processes for determining or reviewing the adequacy of the reserve levels. There is no formal process within the service area and no corporate guidance on what reserve levels should be. The level of the VAT reserve for example is not linked to the projected partial exemption repayment that may be required. However, mitigation processes are in place to ensure the Authority are not in breach of the partial exemption VAT rules and meetings with the HOS and Asset Manager take place regularly to review strategic options. The ICT reserve is reviewed alongside the insurance renewal for disaster recovery, but there are no working papers or supporting documentation for this. However, the ICT reserve was topped up in 2024/25 due to wider service surpluses. The process is informal. It is the same for the Corporate Property Reserve, as the costs are based on judgements by the service area on potential costs.

It is a standard process at year end to request additional funds for reserves on the year end forms which are submitted to the Finance Manager. The Finance Manager then allocates any surplus budget to reserves.

We also found that there was no link between the reserve levels and the risk register in terms of the likelihood and impact.

Agreed action

As part of the implementation of the new Reserves policy, the management of all reserves will sit with Finance. This will allow the allocation of reserves to be earmarked to areas that support the ongoing operation of the Authority, align with

our strategic direction and help mitigate any future risks. This will also remove the restriction on utilising departmental reserves and allow us invest reserves for futureproofing the Authority.

Responsible officer: Finance Manager

Timescale: 30 September 2025

Audit opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on four grades of opinion, as set out below.

Opinion	Assessment of internal control
Substantial assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Finding ratings

Critical	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Significant	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Moderate	The system objectives are not exposed to significant risk, but the issue merits attention by management.
Opportunity	There is an opportunity for improvement in efficiency or outcomes but the system objectives are not exposed to risk.

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.