

# Cairngorms National Park Authority

## Audit Planning Memorandum 2005/06

14 March 2006



Audit Scotland, on behalf of the Auditor General for Scotland, is responsible for:

- providing independent reports to the Auditor General and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements

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## Summary of planned audit activity

Based on our analysis of the risks facing Cairngorms National Park Authority (CNPA) our planned work in 2005/06 includes:

- audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the state of affairs of CNPA for the year;
  - the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers; and
  - they have been prepared properly in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made by the Scottish Ministers.
- review of CNPA's arrangements for governance.

## 1. Introduction

1.1 Our audit is focused on the identification and assessment of the key risks to CNPA in achieving its business objectives. We also assess the risk of material misstatement or irregularity in CNPA's financial statements. This report summarises the key risks facing CNPA and sets out the audit work that we propose to undertake in 2005/06. Our plan reflects:

- CNPA risks and priorities;
- the impact of changing International Auditing Standards;
- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland; and
- issues brought forward from last year's audit.

## 2. Our responsibilities

- 2.1 Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
- 2.2 In carrying out our audit, we seek to gain assurance that:
- CNPA's system of recording and processing transactions provides a sound basis for the preparation of financial statements and the effective management of CNPA's assets and interests;
  - CNPA's financial statements are true and fair;
  - the systems of internal control provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption;
  - CNPA complies with established policies, procedures, laws and regulations;
  - CNPA has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability.

## 3. Format of the Accounts

- 3.1 The financial statements should be prepared in accordance with the Financial Reporting Manual (FReM) and Directions signed by Scottish Ministers. The FReM sets out the principles applicable to the accounting and disclosure requirements for the Annual Report and Accounts of bodies covered by resource accounting.

## 4. Audit Approach

4.1 Our audit approach is based on an annual integrated assessment of risk across our Code of Audit Practice responsibilities in relation to the Financial Statements Opinion and Governance.

This approach includes:

- understanding the business of CNPA and the risk exposure which could impact on the financial statements;
- assessing the key systems of internal control, and considering how risk exposure in these systems could affect the financial statements;
- identifying major transaction streams, balances and areas of estimation, understanding how CNPA will include these in the financial statements and developing audit objectives for these;
- assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk and control environment risk as part of our integrated risk assessment approach; and
- determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement (see 4.4 - 4.5 below).

4.2 Through this approach we have also considered and documented the sources of assurance which will allow us to make best use of our resources and focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action, internal audit coverage and reliance on systems of internal control. Management action relied on for 2005/06 includes:

- comprehensive closedown procedures and timetable prepared and issued to relevant staff;
- clear responsibilities for provision of accounts and working papers;
- delivery of unaudited accounts to agreed timescales with appropriate working papers; and
- completion of the Internal Audit programme for 2005/06.

4.3 In April 2006 we will report on our review of the Internal Audit structure and function in accordance with International Standard on Auditing 610 and identify areas of their work which we intend to rely on for a number of aspects of our programme of work during 2005/06.

- 4.4 The audit of the financial statements is completed over three stages. The first stage was carried out between January and March 2006 as part of our “understanding the business” review. Between April and July 2006 we will complete an interim audit, which includes testing the higher level controls, carrying out analytical and substantive procedures.
- 4.5 We will evaluate the results of our interim audit work prior to the submission of the unaudited financial statements and consider the impact on the final audit programme. The final audit, during August 2006 – September 2006, will focus on the key risks, analytical and substantive procedures relating to the Balance Sheet, and audit of significant areas of judgement and disclosure.
- 4.6 At the completion of the financial statements audit we will provide the Accountable Officer with a Final Report on the Audit, containing observations and recommendations on significant matters which have arisen in the course of the audit, and give an opinion on the financial statements in an Independent Auditor’s Report.

## 5. Materiality

- 5.1 We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
- 5.2 International Standard on Auditing 320 states that, *“information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*
- 5.3 When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.

5.4 An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

## 6. Reporting arrangements

6.1 Matters arising from our audit will be reported on a timely basis during the year and will include agreed action plans. Draft reports will be issued to the responsible officer to confirm factual accuracy. We will agree a timetable for responses.

6.2 A copy of all Reports to Management will be sent to the Chief Executive, Head of Corporate Services and Internal Audit. A copy of the Final Report on the Audit and the Independent Auditor’s Report will be sent to the Chief Executive, the Auditor General and Audit Scotland’s Performance Audit Group. Regular updates on the completion of audit reports will be provided to the Audit Committee.

6.3 We will provide an Independent Auditor’s report to CNPA and the Auditor General that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. The Final Report on the Audit will be produced to summarise all significant matters arising from the audit and overall conclusions about CNPA management of key risks. From 2005/06, all Final Reports on the Audit produced by Audit Scotland will be published on our website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

6.4 The full range of outputs to be delivered by the audit team are summarised below:

	Target delivery Date
<b>Financial statements</b>	
Audit plan	31 March 2006
Independent auditor’s report on the financial statements	30 September 2006
Final Report on the Audit to the Accountable Officer and the Auditor General for Scotland (ISA 260)	13 October 2006
<b>Governance</b>	
Review of the Internal Audit structure and function	30 April 2006

## 7. Timetable

- 7.1 Under the Public Finance and Accountability (Scotland) 2000 Act, there is a requirement for all Agency and NDPB accounts to be presented to the Auditor General within 6 months of the year-end, i.e. 30th September.
- 7.2 A timetable for the final audit phase of our work programme is included at Appendix 1 of this plan, which takes account of submission requirements, planned Audit Committee dates and audit resource availability.

## 8. Quality control

- 8.1 We are committed to ensuring that our audit reflects best practice and demonstrates best value to CNPA and the Auditor General for Scotland. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes.
- 8.2 As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

## 9. Fees and resources

- 9.1 Our agreed fee for the 2005/06 audit of CNPA is £10,100, comprising a local audit fee of £8,700 and a fixed charge of £1,400. Our fee covers:
- all of the work and outputs described in this plan;
  - a contribution towards the costs of national performance studies and statutory reports by the Auditor General; and
  - attendance at audit committee meetings.
- 9.2 In determining the agreed fee we have assumed receipt of the draft accounts and working papers by 30 June 2006. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work or postpone the audit work. An additional fee will be required in relation to any work on other significant exercises not within our planned audit activity.
- 9.3 Robert Clark (Senior Audit Manager) is your appointed auditor and he is responsible for ensuring that our work is carried out on time and to a high quality standard. The day to day management of the audit will be carried out by James Munro (Senior Auditor), who will be your primary contact. Details of our team are provided at Appendix 3. The core audit team will call on other specialist and support staff, as necessary.

## Appendix 1: Financial Statements Audit Timetable

Key Stage	Date
Meeting to clarify with officers expectations of detailed working papers and financial system reports.	March 2006
Audit Scotland's report on internal audit to the Accountable Officer	April 2006
<b>Latest</b> Submission of Unaudited Financial Statements with Working Papers Package.	30 June 2006
Progress meetings with lead officers on emerging issues.	Monthly during final accounts audit
<b>Latest</b> Date for Final Clearance Meeting	t.b.c. 11 August 2006
Agreement of unsigned financial statements for Audit Committee Agenda	t.b.c. 25 August 2006
Accountable officer to sign accounts	30 September 2006
Certifying auditor to sign Audit Certificate	30 September 2006
<b>Latest</b> draft Final Report on the Audit	29 September 2006
Issue of Final Report on the Audit	13 October 2006

t.b.c. To be confirmed

## Appendix 2: Financial Statements Audit Checklist

This list comprises the main working papers needed to enable the final accounts audit to be completed without undue delay and to comply with legislative requirements. In addition, a final copy of the CNPA's timetable and procedures for closing the accounts, together with the names of officials assigned to carry out the year-end accounting tasks, is requested as soon as possible.

All relevant general ledger transactions should be processed to enable trial balances to be reconciled to the unaudited financial statements.

### General

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. A copy of the final trial balance and summary financial ledger for the audit year.			
2. A package of working papers to support major balances and notes, financial estimates and judgements for each major account area.			

### Income and Expenditure Account

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Reconciliation and analysis of all income and expenditure items within the Income and Expenditure Account and associated notes to the trial balance.			
2. A comparison of items shown in the Income and Expenditure Account and in associated notes with original budget and prior year comparative, with an explanation of significant movements or variations. This information can be in the form of reports to Committee if there is a sufficient audit trail.			
3. Scottish Executive confirmation of Grant-in-Aid.			
4. Analysis of assets written off.			

### Operating Income

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Reconciliation of all Operating Income items to financial ledger.			
2. Working paper schedules agreeing income account headings to supporting evidence including relevant analysis.			

### Expenditure on Operating Activities

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Reconciliation of each expenditure head to the financial ledger.			
2. Supporting evidence for property revaluations and management charges.			

### Administration and Management Charges

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Reconciliation of each expenditure head to the financial ledger.			
2. Working paper showing the calculation of the provision for irrecoverable debts and losses.			
3. Analysis of other administration costs.			
4. Analysis of Travel, Subsistence and Hospitality expenses.			
5. Analysis of interest payable.			
6. Analysis of operating leases.			

### Notional Charges

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Working paper showing the calculation of notional charges.			

### Board Members' Remuneration

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. A list of Board Members (and period for which they are a member if less than the full year) with a calculation of emoluments, including accrued pension benefits and benefits in kind where applicable.			

### Staff Costs and Numbers

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Reconciliation of staff costs notes to payroll tabulation cumulative figures at year-end and any accrued costs.	✓		
2. Calculation of average number of employees by whole time equivalent per category of staff.	✓		
3. A list of Senior Employees with a calculation of emoluments, including accrued pension benefits and benefits in kind.			
4. Details of any early retirement/redundancy packages.	✓		

### Balance Sheet

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Reconciliation of all Balance Sheet items to the financial ledger.			
2. A comparison of opening and closing balances with explanations for variances greater than +/- 10% in value.			
3. A list of any suspense accounts included in the balance sheet showing the purpose of each account.			
4. Explanations of any adjustments between closing 2004/05 and opening 2005/06 balance sheets, for any restated figures.			

### Tangible Fixed Assets

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Reconciliation of fixed asset register to accounts figure and fixed asset note by asset category for all disclosure elements.			
2. List of disposed assets from the asset register, proceeds and total value of the disposals reconciled to the fixed assets notes.			
3. Reconciliation of property register to valuation report and financial ledger.			
4. Copies of professional valuation reports for the financial year.			
5. Papers to support any impairment reviews under FRS11.			

### Stocks

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Schedule of stocks together with certified stock sheets and details of stock counting procedures, locations and timetable.			
2. Reconciliation of stock balances to balance sheet figure.			
3. Statement of basis of valuation used for each category of stock.			
4. Evidence of review for obsolete stock and authorisation of provisions and write-offs.			

## Debtors

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Copy of procedures for ensuring that all debtors are identified and included in accounts.	✓		
2. Analysis of balance sheet total and note to the accounts.	✓		
3. Reconciliation of debtors ledger to financial ledger, at 31 March 2006.	✓		
4. Aged debtors listing.	✓		
5. Analysis of credit balances in the debtors ledger.	✓		
6. Schedule of prepayments/accrued income with explanations.	✓		
7. Basis of any provision for bad debts.	✓		
8. Copies of VAT returns and reconciliation to accounts	✓		
9. Supporting documentation for other debtors.	✓		

## Cash at Bank and in Hand

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Cash and bank lead schedule showing summary of cash and bank balances included in the balance sheet.	✓		
2. Bank reconciliations for year-end and listing of unrepresented cheques and cash in transit.	✓		
3. List of bank accounts held during period.	✓		
4. Details of any overdrafts and documentation to support disclosures.	✓		
5. Schedule of petty cash imprests	✓		

### Creditors – Amounts Falling Due Within One Year

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Copy of procedures for ensuring that all creditors are identified and included in accounts.	✓		
2. Analysis of balance sheet total and note to the accounts.			
3. Reconciliation of creditors ledger to financial ledger, at 31 March 2006.			
4. Reconciliation of accruals to financial ledger.			
5. Supporting documentation for other creditor balances.			
6. Details of tax and social security costs.			

### Creditors – Amounts Falling Due After More Than One Year

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Schedule to support each category of creditor due after more than one year.			

### Accounting Policies

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Details of any variations from accounting standards or from previous accounting policies and reason for change. Impact of any changes on the current year and comparative disclosures.			

### Other Statements, Notes and Returns

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
1. Working papers for <b>Cash Flow Statement</b> .			
2. Reconciliation of items in <b>Statement of Recognised Gains and Losses</b> to other accounts and notes as appropriate.			
3. Statement of <b>commitments</b> along with supporting evidence.			
4. Reconciliation of movement in <b>Reserves</b> to other accounts items and supporting papers as appropriate.			

Working Paper	Early Audit Work Planned	Complete Yes/No	Responsible Officer(s)
5. Statement of any <b>contingent liabilities</b> showing nature, basis of assessment, value and uncertainties affecting the outcome of any contingent liabilities. Also include any significant items where a decision has been taken not to disclose as a contingent liability or a statement that there are no such items needing to be disclosed.			
6. Relevant papers for any <b>post balance sheet events</b> disclosed in the accounts together with supporting calculations for financial effects.			
7. Details of any significant items where a decision has been taken not to disclose as a <b>post balance sheet event</b> or a statement that there are no such items needing to be disclosed.			
8. Schedule of all <b>finance and operating lease</b> obligations and payment streams.			
9. Reconciliation of <b>pension information</b> to actuary's report for each pension fund. Name and administrator of fund.			
10. Working papers to show compliance with pension disclosures under FRS17.			
11. Schedule identifying <b>pension costs</b> included in salaries and wages and/or board members' remuneration.			
12. Analysis of additional <b>pension costs</b> arising from early retirements.			
13. List of <b>exceptional items</b> or <b>prior year adjustments</b> with reasons for the treatment. Also include any items which might be categorised as exceptional but where a decision has been taken not to do so, or a statement that there are no such items needing to be disclosed			
14. Analysis and explanation of any restated balance sheet showing the adjustments between the final balances in the previous year's accounts and the opening balances included in the current year's accounts.			
15. Confirmation required that all related party transactions are accounted for.			

✓ Denotes early planned work.

## Appendix 3: Audit Team

Name	Position	Qualification
Robert Clark	Senior Audit Manager	FCCA
James Munro	Senior Auditor	ACMA, FCCA
Karen Cantell	Auditor	MAAT