



Cairngorms National Park Authority (The Authority)

**External Audit Annual Report to the Board and the Auditor General for
Scotland for the financial year ended 31 March 2018**

Audit Committee 31 August 2018 – Draft

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Our audit at a glance



We have fulfilled our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Accountable Officer and the Auditor General for Scotland concludes our work.



Materiality was set at 2% of gross expenditure within our plan, and was updated to reflect the draft financial statements at £121,000. We did not identify any adjustments to the draft financial statements based on our work and minor disclosure amendments were discussed and agreed.



Significant audit risks were: management override of controls; and the risk of fraud in revenue and expenditure recognition as set out in International Auditing Standards (ISAs UK) practice note 10. Our risk assessment remained unchanged and we did not identify any adjustments in these two areas in our work.

An audit underpinned by quality



We have built on our relationship with the Cairngorms National Park Authority (The Authority) management during the year supporting our audit process.



Our work was undertaken in accordance with our agreed timetable. The draft financial statements produced by management were of a high standard with complete information and good supporting working papers. We thank management for their support and assistance during our work



A wider scope audit for the Authority as set out in our plan, was considered not appropriate. However we have considered your financial planning and governance arrangements as part of our audit and are pleased to report there were no issues raised.

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Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards of Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of The Authority's arrangements, sharing relevant practices with the Audit Committee and Management.

We have continued to build on our working relationship with management and our understanding of as an organisation. During the year we have worked with management to develop our audit approach through greater understanding of your financial transactions.

Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

In accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website (www.audit-scotland.gov.uk)

Our report was presented as a draft to the Audit Committee on 31 August 2018 and will then be signed by the Authority.

We would like to thank the Authority's management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

Structure of this report

As set out in our Audit Plan (2 February 2018) we consider in accordance with the Audit Scotland Code of Practice that the Authority is a smaller body. Therefore full wider scope is not appropriate. Our report concludes on our financial statements audit and certain aspects of the Authority's arrangements as follows:

Financial statements – Section 2 and Appendix 1

Performance and Strategic report – Section 2



Our Opinion (subject to finalisation of the outstanding information)

For the financial year ended 31 March 2018 we plan to issue an **unqualified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of The Authority
- Other prescribed matters (which include the audited information in the remuneration report)



Status of the audit as at 31 August 2018

Our audit is substantially complete with the exception of the following:

- Letter of representation
- Subsequent events procedures



The audit process

We received a good complete set of financial statements in line with the agreed audit timetable, including the performance report, strategic report and governance statement.

The draft financial statements were supported by good working papers and the audit was efficient.

We identified no changes to the financial statement balances and have no unadjusted differences to report. We identified minor disclosure enhancements and these have been reflected in the financial statements.

The financial statements audit



Our audit work was completed in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we expect to issue an unqualified audit opinion on the financial statements including:

- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Performance and Strategic report
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee in February 2018. As set out in our plan, our materiality calculations were based on the audited 2016/17 financial statements. We subsequently updated our materiality calculation to be based on the draft 2017/18 financial statements. Overall materiality has been set at £121,000 (2% of gross expenditure) and performance materiality is set at £90,000 (75% of materiality). We report to management any audit difference identified over £6,000 (trivial as 5% of materiality).

We did not identify any additional significant audit risks from those identified in our audit plan.

Internal control environment

During the year we sought to understand the Authority's overall control environment (design) as related to the financial statements. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures on key financial controls in particular journals, ledger controls, income and expenditure transactions.

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive based in nature.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach, set out in our plan.

Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of BDO LLP, the Authority's internal audit provider. We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted.

The findings of internal audit do not disagree with our knowledge and understanding of the Authority as an organisation.

Identified audit risks and our conclusions

	Identified audit risk at planning	Work completed	Our conclusion
Risk of fraud in revenue	<p>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. Given grant-in-aid income is well forecast and agreed to funding letters we do not consider this to be of higher risk. Our presumed risk therefore focuses on operational plan and other income. We consider the risk to be prevalent around the year end and therefore focus our audit work on transactions around the year end</p>	<ul style="list-style-type: none"> Developed our understanding of the Authority's material revenue streams including walkthrough of key transactions. Performed targeted review and testing of key revenue streams during the year, including analytical procedures and transaction testing including information from asset managers and underlying transactions Performing revenue cut off procedures and substantive testing over pre and post year end balances Testing the existence and recoverability of balances at the year end 	<p>From our audit procedures performed we are satisfied that revenue is free from material misstatement.</p> <p>We are satisfied that revenue has been recognised in the appropriate financial year.</p>
Operating expenditure is not treated correctly	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities, we recognise that there is a risk that expenditure could be materially misstated. The risk is prevalent primarily on transactions around the year end where there is a inherently higher risk of misstatement.</p>	<ul style="list-style-type: none"> Developed our understanding of the Authority's material expenditure streams including walkthrough of key transactions. Performing targeted review and testing of key expenditure streams during the year, including analytical review of expenditure and targeted transaction testing, including consideration of the regularity of expenditure incurred. Performing cut-off testing of expenditure transactions around the year end to ensure these had been allocated to the appropriate financial year. Reviewing post year end payments for any potential unrecorded liabilities. 	<p>Assurance gained that expenditure has been recorded within the appropriate financial year and that payables are free from material misstatement.</p> <p>We are satisfied that expenditure has been incurred in accordance with the type/nature of the Authority as an organisation.</p>
Management override of controls	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities</p>	<ul style="list-style-type: none"> Developed our understanding of the entity level controls in place at the Authority that reduce the risk of management override Performed review of journal transactions for unusual transactions or balances. Evaluated key areas of judgement within the financial statements and the basis for these judgements / application of accounting policies Reviewed unusual and/or significant transactions 	<p>We did not identify any significant areas of bias in key judgements by management. We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation.</p>

Narrative elements of your annual accounts

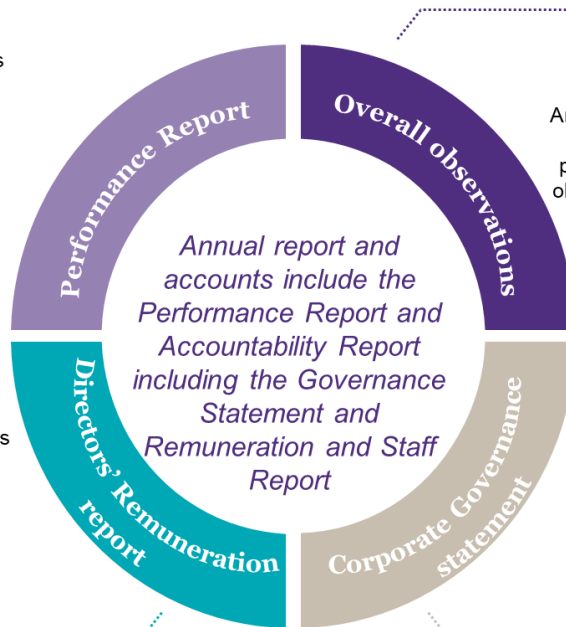
In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Report and Accounts. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

Performance Report

- The Performance Report clearly defines the principal activities, risks and uncertainties of the organisation.
- It summarises the Authority's financial results for the year as well as future developments
- The information contained within the report is consistent with the financial statements.

Remuneration and Staff Report

- The auditable part of the Remuneration report has been properly prepared in accordance with the FrEM and directions made thereunder by the Scottish Ministers.
- The information contained within the report is consistent with underlying records.



Overall observations

There are opportunities for the Authority to continue to develop the "front end" of the Annual Report and Accounts, to tell the story of the Authority as an organisation, in particular the performance against strategic objectives. There are further opportunities to enhance the report with more explicit reporting of performance indicators / measures.

Governance Statement

- Clearly defines the responsibilities and duties of the Board, the Convenor of the Board and the Accountable Officer
- No material issues of governance in year that are required to be reported
- Describes the Authority's governance arrangements
- The information contained within the statement is consistent with the financial statements

Provisions and uncertainties

There are no material provisions or uncertainties related to the accounts. Management recognise a long term liability in relation to the Crubbenmore Quarry cash bond as well as long term liability in relation to potential LEADER clawback. We have reviewed the basis on which the liabilities have been recognised and are satisfied that the amount recognised reflects appropriate current valuation of future obligations.

Fraud and irregularity

In relation to the audit risk of fraud in respect of expenditure we tested the Authority's cut off arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate potential fraud. There are no post balance sheet events or legal uncertainties at year-end.

There were no frauds identified by management during the year and no indication of fraud through our audit work.

Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.

The Authority's accounting policies are in accordance with the FReM and we consider these to be appropriate to the organisation and consistent with those adopted in prior years.

Accounting estimates and judgements

The Authority's significant accounting estimates and judgement impacting on the annual accounts are the following:

- **Investment impairment review** – The Authority made capital contributions to the National Parks Partnership LLP. Due to significant uncertainty around future recoverability of contributions made, the Authority has fully impaired outstanding balances. We have reviewed the basis of this impairment and consider it appropriate.
- **LEADER irregularities** – The Authority is the accountable body for the Cairngorms Local Action Group, delivering the Local Development Strategy. As such, the authority is liable for any funding advances that may not be recoverable due to irregularities in expenditure claimed. Management have considered the historic trend of previous LEADER programmes and have estimated the percentage of costs that are likely to be irrecoverable in the current 2014-2020 programme.

We have considered the assumptions made by management when recognising the amounts recoverable on the LEADER programme and consider these to be reasonable. There is no indication of management bias in assumptions made and is supported through current amounts recoverable. However, the Authority continues to be exposed to the risk of potentially falling liable for funding advances that have yet to be settled through EU funding.

Action plan - 1

Going concern

The authority does not generate a significant level of revenue and therefore is reliant on Scottish Government grant in aid funding to meet operating costs. The Scottish Government has confirmed funding for 2018/19 and there is no indication that the government would not continue to support the organisation continue to deliver its statutory obligations.

Management are satisfied that the organisation continues to represent a going concern and based on our audit work performed we would agree this is a reasonable assessment at this point in time.



The Authority's financial and governance arrangements



Financial management and sustainability

In 2017/18, the Authority incurred net expenditure of £4.453 million, including revenue of £1.646 million. The most significant element of revenue was through partner project contributions of £1.337 million. Following recognition of grant-in-aid capital and revenue funding from the Scottish Government, the net increase in taxpayers' equity of the year was £121,000. This was broadly in line with budget for the year.

The Cairngorms National Park Partnership Plan 2017-2022, has been developed by the Authority alongside its strategic partners including local authorities and other Scottish public bodies. The Cairngorms National Park Authority Corporate Plan 2018-2022 outlines how the Authority will support the delivery of the Partnership Plan within the resources available through Scottish Government Grant in aid funding.

The Corporate Plan includes financial forecasts over the next four financial years. This includes a projected flat cash grant in aid settlement over the period of the plan and moderate other sources of revenue. The financial plan includes forecast uplifts in operating costs however sufficient resources to continue to sustain operational performance and the delivery of the Authority's strategic objectives.

The financial forecast assumptions appear reasonable. Financial performance is monitored during the year by senior management and the Finance and Delivery Committee providing oversight and scrutiny of financial performance.



Governance and transparency

The Board has established a governance framework to support the oversight and scrutiny of the Authority's delivery of the Corporate Plan and strategic objectives. This includes delegated responsibility to four committees: the Finance and Delivery Committee; the Staffing and Recruitment Committee and Planning Committee; and the Audit and Risk Committee. The Audit and Risk Committee leads the oversight of the systems of internal control, risk management and preparation of the financial statements.

We are satisfied that the governance arrangements in place at the Authority are appropriate given the organisation's size and operating activities. There is a commitment to transparency and public accountability with minutes and most papers of both the Board and Audit and Risk Committee meetings being published online as well as corporate documentations such as business plans and performance reports.

Appendices

Action plan and follow up of 2016/17 recommendations

Audit adjustments

Independence, fees and fraud responsibilities

Communication of audit matters with the Accountable Officer

Action plan and follow up of 2016/17 external audit recommendations

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations we consider are of a higher risk to the Authority that Management may wish to consider in the future. We have also completed follow up of our 2016/17 recommendations and this is reflected below for information.

Recommendation

Agreed management response

LEADER Programme

The Authority is the accountable body for the Cairngorms Local Action Group, delivering the Local Development Strategy. As such, the authority is liable for any funding advances that may not be recoverable due to irregularities in expenditure claimed. The Authority has developed regular review of the LEADER programme and engagement with the Scottish Government. However, the nature of the arrangements continue to expose the Authority to be liable for irregularities in expenditure claimed. It is critical that the Authority continue to engage with the Scottish Government to ensure that monies recognised are recoverable.

We agree it remains critical to engage with the Scottish Government on all matters of programme management, including finances. The Director of Corporate Services will continue to lead on this work as lead Director for Cairngorms LEADER and also with responsibility overall for Finance and Audit activity for the Authority.

Follow up of 2016/17 recommendations

Recommendation

Update

Annual governance statement processes

There is currently no formal director sign off process to support the Chief Executive's annual Governance Statement. There is a risk insufficient supporting evidence to support the statements made.

We recommend that the implementation of this process is considered.

Issue closed

The Authority has established a formal review of the governance statement by the management team prior to being presented to the Board to provide assurance to the Chief Executive that the management team have considered the statement and conclusions made.

Audit adjustments

Uncorrected and corrected misstatements

We are pleased to report that there were no corrected or uncorrected misstatements to the financial statements arising during our audit.

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements. There were minor disclosure amendments made to the draft financial statements. These were primarily around disclosure enhancements required under the FReM as well as the Remuneration and Staff Report. We do not consider these to be material to the financial statements.

Fees, independence, fraud arrangements

External Audit Fee

Service	Fees £
External Auditor Remuneration	8,390
Pooled Costs	2,040
Contribution to Audit Scotland costs	510
Contribution to Performance Audit and Best Value	0
2017-18 Fee	10,940

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £10,940.

Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at The Authority.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for The Authority this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires which were received in May 2018.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is The Authority's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with The Authority to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

Communication of audit matters with the Accountable Officer

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance who for The Authority we deem to be the Accountable Officer	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
We are independent of The Authority and have not identified any conflicts of interest		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
We have not incurred any non-audit fees during the year and no threats to independence identified		
Significant matters in relation to going concern	•	•
No significant going concern matters identified		
Views about the qualitative aspects of The Authority accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Set out in the Financial statements Section		
Significant findings from the audit		•
No significant findings from our audit		
Significant matters and issues arising during the audit and written representations that have been sought		•
Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.		
Significant difficulties encountered during the audit		•
No difficulties encountered		
Significant deficiencies in internal control identified during the audit		•
None identified		
Significant matters arising in connection with related parties		•
None identified		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.		
Non-compliance with laws and regulations		•
None noted		
Unadjusted misstatements and material disclosure omissions		•
None noted. Minor disclosure amendments only and these were not material in nature		
Expected modifications to the auditor's report, or emphasis of matter		•
None, an unqualified opinion		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to The Authority Management and the Audit Committee.



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