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Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority

Internal audit report 2013-14

Financial management, planning & efficiencies

19 November 2013

Contents

This report is for:

Action

David Cameron - Corporate Services Director (Cairngorms National Park)

Jaki Carnegie – Director of Corporate Services (Loch Lomond & The Trossachs National Park)

Information

Audit Committee

Notice: About this report

This Report has been prepared on the basis set out in our Engagement Letter addressed to Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority ("the Clients") dated 15 June 2011 (the "Services Contracts") and should be read in conjunction with the Services Contract. Nothing in this report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Services Contract. This Report is for the benefit of the Clients only. This Report has not been designed to be of benefit to anyone except the Clients. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Clients, even though we may have been aware that others might read this Report. We have prepared this report for the benefit of the Clients alone. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Clients) for any purpose or in any context. Any party other than the Clients that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, through the Clients' Publication Scheme or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Clients. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Clients alone, this Report has not been prepared for the benefit of any other central government body nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example those who work in the central government sector or those who provide goods or services to those who operate in the sector.

Introduction and background

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Introduction

In accordance with the 2011-12 to 2013-14 strategic internal audit plan for Loch Lomond & The Trossachs National Park Authority ("LLTNPA") and Cairngorms National Park Authority ("CNPA"), as approved by the audit committee, we have performed an internal audit of financial management, planning and efficiencies. The objective of the audit was to consider the Authorities' policies and procedures for financial management, planning and efficiencies and the extent to which they support strategic plans.

The specific objective, scope and approach, as agreed with management, is detailed in appendix one.

Background

Achievement of strategic objectives requires engagement of all staff and alignment of goals and objectives should contribute to strategic performance of the Authorities.

Financial planning

Both Authorities have well developed formal financial planning processes for budget setting and financial planning. LLTPNA has a 'budget and financial monitoring process policy' which sets out the responsibilities and timetable for the annual budget setting process. CNPA has embedded the responsibilities for the annual budget setting process within its 'financial management framework and regulations' document.

The budget setting process in both Authorities is led by senior management within the finance teams, and includes input from department and project managers. This includes consideration of performance against previous budgets to identify where allocation of resources can be reduced to meet cuts in funding. There is, however, limited use of sensitivity analysis in both Authorities to support the financial planning process.

Annual financial planning is informed by the corporate plans and therefore covers the same periods. Whilst it would be best practice to have longer term financial strategies, we recognise that these may be of limited use in the current environment.

Financial monitoring

The aforementioned financial planning documents also set out the requirements and responsibilities of individuals and Authority committees and groups for monitoring financial performance during the year. Senior management and board members at both Authorities receive regular financial updates during the financial year.

Both Authorities produce management accounts on a monthly basis allowing for relevant and timely review of performance to date at both organisation and project level. This information is used to inform reports to board members with information tailored to individual groups and committees, as appropriate. For example, the LLTPNA board receives a one page summary of financial information at meetings, rather than the detailed management accounts provided to its executive team and managers. Financial updates at both Authorities include consideration of actual performance against budget with forecasts updated as necessary following changes in income or expenditure.

Efficiency savings

Both Authorities have identified efficiency targets for 2013-14 in order to comply with the Scottish Governments 3% recurring efficiency savings target and these have been incorporated into annual budgets. This includes recognition of the impact of efficiency savings schemes and plans implemented in prior years. However, as was the identified in our previous report on financial management, there is limited evidence of new savings plans being identified by management, or organisation staff, beyond the current year.

Executive summary: Key findings and recommendations

We identified no 'critical' or 'high' risk graded recommendations for either Park in the course of our work.

LLTNPA

We identified one 'low' graded recommendation. We also identified a number of areas of good practice through the course of our review.

CNPA

We identified one 'low' risk graded recommendations. We also identified a number of areas of good practice through the course of our review.

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Management has accepted the findings and agreed reasonable actions to address the recommendations.

	Authority	Critical	High	Moderate	Low
Number of internal audit findings	LLTNPA	-	-	-	1
	CNPA	-	-	-	1
Number of recommendations accepted by management	LLTNPA	-	-	-	1
	CNPA	-	-	-	1

Summary of findings

We identified no 'critical or 'high' risk recommendations during this review. We noted that:

- There is evidence of good involvement of senior management in budget setting and monitoring processes.
- Financial planning is not just performed by the finance teams but is undertaken with the active involvement of project managers to encourage 'buy-in'.
- Medium-term financial plans are clearly linked to strategic objectives through corporate plans.
- Processes for monitoring and reporting efficiency savings to operational staff and managers are well established at LLTNPA, but there is scope to improve and formalise arrangements at CNPA.

Action plan – LLTNPA

The action plan summarises specific recommendations, together with related risks and management's responses.

Finding(s) and risk	Recommendation(s)	Agreed management actions
1 Calculation and Presentation of Efficiencies		**Low**
The identified savings figure reported to the board is the result of an arithmetic operation applying an assumed 1% inflation rate to prior year actual costs and then removing the current year budget costs. This effectively assumes that costs will be on budget and that savings are generated in operating at the same level as the prior year. There is a risk that efficiency savings presented to the board during the year are not accurate as they may not take account of variances from budget during the year. There is also some scope to clarify the presentation of efficiency savings as part of the key performance indicators delivered to the board. For example, a bar chart is used to display quarter one savings of 2.8%; this is actually the target savings as opposed to actual. Details of efficiency savings communicated to management do not include the individual areas where savings have been generated. There is a risk that managers are not aware of these areas.	Management should ensure that reporting to the board is based on the most recent financial information, for example, on the most recent quarterly financial forecast. This will provide greater assurance over the generated efficiency savings. Reporting to managers should be detailed enough to ensure they have an understanding of the specific areas in which efficiencies have been generated to allow them to take account of these.	Reporting to the Board will incorporate the most recent financial information. As part of corporate planning and budgeting for 2013-14, managers will be tasked with identifying specific efficiency targets. **Responsible officer**: Andrew Jump **Implementation date**: Reporting: November 2013 Planning/Budgeting: April 2014

Action plan – CNPA

Finding(s) and risk	Recommendation(s)	Agreed management actions
1 Monitoring of Efficiencies		**Low**
Changes in the finance department at CNPA have had a negative impact on the identification and monitoring of efficiency savings and there is scope for improving these savings. We note that there have been extenuating circumstances in this regard. There is a risk that efficiency savings are not identified and as a result, targets are not met for the year.	Management should ensure that processes are established to identify and monitor efficiency savings throughout the year. Progress should be reported to the board regularly, to allow scrutiny, and to management and staff, to ensure embedded in operating activities.	We accept that the sudden loss of the previous Finance Manager has led for a number of reasons to a lack of reporting on the identification and monitoring of efficiency savings. The Corporate Services Director has provided continuity of strategic planning and oversight during this time and remains confident that the 3% efficiency target will be delivered for current year. A report will be drawn up for consideration by Management Team and then Finance and Delivery Committee reviewing efficiency savings for 2013/14 and identifying options for 2014/15. **Responsible officer:** Corporate Services Director **Implementation date:** 31 December 2013

Appendices

Objective, scope and approach

In accordance with the 2011-12 to 2013-14 strategic internal audit plan for Loch Lomond & The Trossachs National Park Authority and Cairngorms Naitonal Park Authority, as approved by the Audit Committee, we have performed an internal audit of financial management, planning and efficiencies .

Objective

The objective of the audit is to consider the Authorities policies and procedures in place for financial management, planning and efficiencies and the extent to which they support achievement of these outcomes.

Scope

This joint review will consider:

- budget setting and monitoring practices (for 2013-14 and beyond);
- linkages between strategic plans and budget models;
- embedding and monitoring of efficiency savings since 2011-12; and
- any areas of better practice that the Authorities could implement to enhance procedures.

Approach

We will adopt the following approach to this review:

- project planning and scoping.
- conduct interviews with staff to gain an understanding of the Authorities’ processes and procedures in relation to financial management, planning and efficiencies;
- identify and agree key risks and processes with management.
- review the adequacy and effectiveness of key processes through sample testing and discussion.
- agree findings and recommendations with management.

Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with management for prioritising internal audit findings according to their relative significance depending on their impact to the process.

Rating	Definition	Examples of business impact	Action required
Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.	■ Potential financial impact of more than 1% of total expenditure. ■ Detrimental impact on operations or functions. ■ Sustained, serious loss in brand value. ■ Going concern of the organisation becomes an issue. ■ Decrease in the public's confidence in the Authority. ■ Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty. ■ Life threatening.	■ Requires immediate notification to the Authority's audit committee. ■ Requires executive management attention. ■ Requires interim action within 7-10 days, followed by a detailed plan of action to be put in place within 30 days with an expected resolution date and a substantial improvement within 90 days. ■ Separately reported to chairman of the Authority's audit committee and executive summary of report.
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	■ Potential financial impact of 0.5% to 1% of total expenditure. ■ Major impact on operations or functions. ■ Serious diminution in brand value. ■ Probable decrease in the public's confidence in the Authority. ■ Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty. ■ Extensive injuries.	■ Requires prompt management action. ■ Requires executive management attention. ■ Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months. ■ Reported in executive summary of report.

Classification of internal audit findings (continued)

Rating	Definition	Examples of business impact	Action required
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.	■ Potential financial impact of 0.1% to 0.5% of total expenditure. ■ Moderate impact on operations or functions. ■ Brand value will be affected in the short-term. ■ Possible decrease in the public's confidence in the Authority. ■ Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty. ■ Medical treatment required.	■ Requires short-term management action. ■ Requires general management attention. ■ Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months. ■ Reported in executive summary of report.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	■ Potential financial impact of less than 0.1%*of total expenditure. ■ Minor impact on internal business only. ■ Minor potential impact on brand value. ■ Should not decrease the public's confidence in the Authority. ■ Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty. ■ First aid treatment.	■ Requires management action within a reasonable time period. ■ Requires process manager attention. ■ Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months. ■ Reported in detailed findings in report.

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