

Cairngorms National Park Authority

INTERNAL AUDIT REPORT

Financial Planning

December 2018

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Substantial



CONTENTS

Executive Summary	3
Appendices:	
I Staff Interviewed	7
II Definitions	8
III Terms of Reference	9






REPORT STATUS	
Auditors:	Gemma Macdonald
Dates work performed:	10/12/18 - 14/12/18
Draft report issued:	21/12/18
Final report issued:	10/01/19

DISTRIBUTION LIST	
David Cameron	Director of Corporate Services
Danie Ralph	Finance Manager

Restrictions of use

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)	
Design	 There is a sound system of internal control designed to achieve system objectives.	High	
		Medium	
Effectiveness	 The controls that are in place are being consistently applied.	Low	
		Total number of recommendations: 0	

OVERVIEW

Background

It was agreed with management and the Audit Committee that internal audit would review the financial planning process in order to provide assurance around the current financial planning arrangements, and provide management with advice and recommendations for improving the arrangements further.

Cairngorms National Park Authority (CNPA) complete their budgeting process annually. They receive an annual Grant in Aid settlement from the Scottish Government, which makes up 96% of CNPA’s total income. CNPA have two types of costs in their operational plan. The first type is core costs which are those fixed costs which are incurred every year regardless of which projects are undertaken and are generally made up of board fees, staff salaries, other board and staff costs, facilities costs and IT and professional support. Core costs are aggregated and divided by the number of working hours to give the full time equivalent; the costs are then allocated to projects based on the full time equivalent required. The other type of cost is the variable activity cost; this is the amount needed by services to carry out their desired projects after core costs have been covered (e.g. for materials). Grant in Aid funds must be allocated to the two types of costs. Core costs are allocated first since they are critical to the operation of the Authority. Grant in Aid funds remaining after allocating core costs are then allocated to operational activities.

The department head of each of the services (Land Management & Conservation, Visitor services, Planning & Rural Development, Corporate & Community Support and Communications & Engagement) produces an aspirational budget detailing which projects they would like to undertake in the period and what budget they require. This is then discussed and refined based on the funding available. The operational plan shows the funds both allocated and committed. Managers are encouraged to commit funds as much as they can as early in the financial year as they can. This ensures the effective investment of available Government funding in Cairngorms National Park projects and also gives a clearer picture of what funds are still available. Throughout the year, the budget is reforecast and a virement (public funds transfer request) can be made to transfer allocated budget from an over budgeted activity to be utilised in an under budgeted activity.

EXECUTIVE SUMMARY

OVERVIEW

Over the past three years, CNPA have been carrying out scenario planning to ascertain the impact of various changes to the budget. This takes place in the early stages of the budgeting process with scenarios being drawn up in the Summer period to allow discussion with the Scottish Government sponsor team. The most recent scenario testing considers the period 2019-21 and identifies pressure points for resource and capital along with testing four different scenarios which required resource savings of 5%, 10%, 15% or 20% for the 2019/20 period and two different scenarios which required resource savings of 5% or 10% for the 2020/21 period. Such testing allows CNPA to predict and prepare for the impact of different scenarios on their budget.

Initially, the budget is reviewed and reforecast by the Finance Manager monthly. In January CNPA will forecast their outturn (their year end position). Once the outturn forecast is completed, the budget is reviewed fortnightly, and from March, it is reviewed daily. CNPA aims to break even each year.

The timetable for financial planning has become increasingly formalised due to increasing complexity in the budgeting process as a result of an increased number of projects and political uncertainty (e.g., in part to uncertainty from Brexit and the potential for an emergency SG budget in the event of a no deal which may impact CNPA). The draft budget is presented to Management for initial review by the end of January, it is then revised and approved in early February before being presented to the Finance & Delivery Committee in late February and, finally, it is presented to the Board in early March to be approved and implemented in April.

The building phase of the CNPA head office extension build project was delayed in commencement; the building was supposed to be occupied last year but delays meant that it was not occupied until 13th August 2018. This had a knock on effect on the budget, meaning that CNPA are therefore in the first cycle of utilities for the new building and hence these costs are estimated. Costs estimations are completed by calculating the year to date figure or using the last invoice, annualising it, and comparing it to the previous year cost (when available) and making an adjustment based on this years changes such as inflation, increased staff numbers and the increased size of the building. As the costs become more clear in the new year when invoices are received, the budget will be reforecast.

Scope and Approach

The scope of our review was to assess whether financial plans were based on reasonable assumptions and forecasts and accurate, reliable information. We also assessed whether financial plans were developed in a timely manner with appropriate consultation, review and approval arrangements. We evaluated whether scenario planning and sensitivity analysis had been carried out to ensure budgets are flexible and robust enough to meet organisational requirements and respond to funding changes. As part of the review we also considered whether budget reforecasts were carried out on a regular basis to reflect changes which occurred to plans, or to predict the outturn where expenditure in some areas differed from expectations.

EXECUTIVE SUMMARY

OVERVIEW

Our approach was to conduct interviews to establish the controls and processes in operation, and to review documentary evidence that these controls are designed as described. We evaluated these controls to identify whether they adequately address the risks.

Good Practice

We identified a number of elements of good practice being demonstrated at Cairngorms National Park Authority with regard to financial planning. The plans were found to be based on accurate, reliable and relevant information and where assumptions were used, these were found to be reasonable. The financial planning process was also found to be carried out in a timely manner in accordance with the prescribed timetable and was subject to extensive consultation, review and approval prior to implementation. Budget reforecasts were carried out regularly to reflect any changes to the plan or to predict the outturn where expenditure differed to expectations.

Conclusion

We are able to provide substantial assurance over the design and operational effectiveness of the controls in place in relation to the financial planning of Cairngorms National Park Authority.

EXECUTIVE SUMMARY

RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE





- ✓ Financial plans may not be based on accurate, reliable or relevant information.
- ✓ The financial planning process may not be carried out in a timely manner in accordance with a clearly defined timetable.
- ✓ Financial plans may be based on unreasonable assumptions or forecasts.
- ✓ No, or limited, scenario planning or sensitivity analysis has been undertaken.
- ✓ Budget reforecasts may not be carried out on a regular basis to reflect changes which may occur to plans, or to predict the outturn where expenditure in some areas differs from expectations.
- ✓ Financial plans may not be subject to effective consultation, review or approval.




APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Danie Ralph	Finance Manager

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX III - TERMS OF REFERENCE

BACKGROUND



In accordance with the 2018-19 Internal Audit Plan, it was agreed that Internal Audit would review the design and operating effectiveness of the controls in place at Cairngorms National Park Authority surrounding financial planning arrangements.

PURPOSE OF REVIEW



The purpose of this review is to provide management and the Audit & Risk Committee with assurance that Cairngorms National Park Authority has well designed, effective controls in place in relation to financial planning.

KEY RISKS



Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- Financial plans may not be based on accurate, reliable or relevant information;
- The financial planning process may not be carried in a timely manner in accordance with a clearly defined timetable;
- Financial plans may be based on unreasonable assumptions or forecasts;
- No, or limited, scenario planning or sensitivity analysis has been undertaken;
- Budget reforecasts may not be carried out on a regular basis to reflect changes which may occur to plans, or to predict the outturn where expenditure in some areas differ from expectations
- Financial plans may not be subject to effective consultation, review or approval.


APPENDIX III - TERMS OF REFERENCE

SCOPE

The scope of our review is to assess whether:

- Financial plans are based on reasonable assumptions and forecasts and accurate, reliable information;
- Financial plans are developed in a timely manner with appropriate consultation, review and approval arrangements;
- Scenario planning and sensitivity analysis has been carried out to ensure budgets are flexible and robust enough to meet organisational requirements and respond to funding changes; and
- Budget reforecasts are carried out on a regular basis to reflect changes which may occur to plans, or to predict the outturn where expenditure in some areas differs from expectations.

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.



BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright ©2019 BDO LLP. All rights reserved.

www.bdo.co.uk

