

Cairngorms National Park Authority

INTERNAL AUDIT REPORT

Financial Reporting

March 2018

LEVEL OF ASSURANCE

| Design | Operational Effectiveness |
|-------------|------------------------------|
| Substantial | Substantial |



CONTENTS

| | |
|---------------------------------------|----|
| Executive Summary | 3 |
| Detailed Findings and Recommendations | 7 |
| Observations | 10 |
| Appendices: | |
| I Staff Interviewed | 11 |
| II Definitions | 12 |
| III Terms of Reference | 13 |

REPORT STATUS

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|-----------------------|---------------------------|
| Auditors: | Chris Milborrow |
| Dates work performed: | 30 January - 4 March 2018 |
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| Final report issued: | 29 March 2018 |







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 |   2 |
| | | Total number of recommendations: 2 | |

OVERVIEW

Background

As part of the 2017/18 Internal Audit Plan, it was agreed that Internal Audit would carry out a review of the Financial Reporting arrangements in place at Cairngorms National Park Authority ('The Organisation'). We assessed the robustness of the reporting in place, whether an appropriate timetable is in place to comply with statutory reporting requirements, and whether effective financial reporting arrangements are in place to deliver clear, accurate and timely reports.

The Organisation reports financial information to several key internal and external stakeholders. Below, we have outlined these groups, the frequency of reporting, and the information reported:

Scottish Government - Sponsoring Body (Directorate of Environment and Forestry, Natural Resources Division): The Scottish Government receives a comprehensive Annual Report, produced in alignment with the Scottish Public Finance Manual (SPFM) and the UK Government Financial Reporting Manual (FRM). This includes audited annual accounts and a performance report setting out the Organisation's strategic and operational achievements during the financial year. The sponsoring department also receives a monthly budget monitoring return in an Excel spreadsheet;

Finance and Delivery Committee: The Finance and Delivery Committee oversees the financial performance of the Organisation and receives a report at each meeting (at least three times per year). The reporting pack includes a 'financial monitoring' summary of the financial position supported by annexes demonstrating actual outturn (per operational/project area) and an income and expenditure report per month;

(continues overleaf)

EXECUTIVE SUMMARY

OVERVIEW

Background (continued)

Senior Management Team (SMT): SMT meets every two weeks and receives on-demand financial information to inform decision making. This includes summary accounts in statutory format, supported by annexes demonstrating actual outturn (per operational/project area), an income and expenditure report per month and (more recently), a key points summary which highlights cash, budget variances, debtors and additional information deemed relevant.

Management accounts are maintained on an Excel spreadsheet, administered by the Finance Manager. The spreadsheet is updated on a regular basis in conversation with budget owners, and aims to provide up-to-date and accurate information relating to income and expenditure (Grant in Aid spend), LEADER project expenditure and claims, and Tomintoul & Glenlivet Landscape Partnership amounts due.

The purpose of our review was to provide assurance that appropriate arrangements are in place and operating effectively in relation to financial reporting.

Scope and Approach

The scope of this review will be to assess whether:

- Reported financial information meets end user requirements and supports users in discharging their responsibilities in accordance with the Financial Memorandum;
- Financial information is reported in accordance with Scottish Government requirements;
- Reported financial information addresses key organisation risks;
- Reported financial information is accurate and agrees to underlying systems;
- Performance measures are included in the financial information reported, compared to targets, and variances are explained; and
- There is an appropriate timetable in place to guide the Financial Reporting Process in line with statutory reporting requirements.

Good Practice

We observed elements of good practice being demonstrated within the Organisation in relation to financial reporting, including:

- **On-demand information:** the Organisation's ability to develop timely, on-demand financial information ensures that Senior Management can make informed decisions based on up-to-date budget positions; and (continues overleaf)

EXECUTIVE SUMMARY

OVERVIEW

Good Practice (continued)

Following Statutory Format: we reviewed the 16/17 Annual Report and found that it satisfied the criteria set out within the SPFM and FReM guidance, with clearly delineated and detailed sections relating to performance, accountability and the financial statements.

Key Findings

Despite the elements of best practice outlined above, we have identified areas where further improvements can be made to further develop the financial reporting arrangement within the Organisation. These areas include:

- **Performance and Risk Reporting:** we found that, although the ongoing 'key points' report to Senior Management includes ad-hoc information relating to performance, the Organisation could benefit from more formal and robust performance reporting, including monitoring of ongoing finance related risk areas; and
- **Reporting Timeline:** We found that there is currently no timetable in place to guide annual statutory financial reporting.

Conclusion

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


EXECUTIVE SUMMARY

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

- ✓ Financial information reported does not meet user requirements and support users in discharging their responsibilities in accordance with the Financial Memorandum
- ✓ Financial information is not reported in accordance with Scottish Government requirements
- ✓ Financial information reported does not address key organisation risks
- ✓ Financial information reported is inaccurate and may not agree to underlying systems
- ✓ Performance measures have not been included in the information reported, performance is not compared to target and variances explained
- ✓ There is not an appropriate timetable in place to guide the Financial Reporting process in line with statutory reporting requirements

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Financial information reported does not address key organisation risks, and performance measures have not been included in the information reported, performance is not compared to target and variances explained

| Ref. | Finding | Sig. | Recommendation |
|--|---|---|---|
| 1 | <p>It is important that financial information provides insights relating to performance compared to targets/budgets and includes updates against key finance related risks.</p> <p>We found that although the 'key points' report, provided as part of the ongoing financial reporting, contains ad-hoc narrative relating to performance (for example, the January 2018 report included a note within 'CORE' informing management of 'overspends on recruitment/relocation'), there was no ongoing reporting of performance compared to targets. We found that budget holders will be required to provide monthly budget forecasts for FY 2018/19, and this may present an opportunity for ongoing variance reporting.</p> <p>We also confirmed that, although risk reporting is included within the Annual Report (linking primarily to the Organisation's risk register), there is currently no reporting against key finance related risks on an ongoing basis.</p> <p>There is a risk that the Organisation is not proactively highlighting areas of deviation from budget and key risk areas, as part of ongoing financial reporting.</p> |  | <p>We recommend that the Organisation develop a framework for reporting performance, including:</p> <ul style="list-style-type: none"> - Variance reporting against monthly budgets (with reporting escalation thresholds to determine what level of variance is required to be reported, to be agreed by Senior Management and the Board); and - Ongoing reporting on key finance-related risks. <p>The Organisation should also review whether additional performance information would add-value as part of ongoing financial reporting for example, accrual repayment timescales.</p> |
| MANAGEMENT RESPONSE | | | RESPONSIBILITY AND IMPLEMENTATION DATE |
| <p>Agreed. We will enhance reporting on key-finance risks and review what additional performance information is relevant and pertinent to the financial management of the Authority.</p> | | | <p>Responsible Officer: <i>Director of Corporate Services and Finance Manager</i></p> <p>Implementation Date: 30 June 2018</p> |

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: There is not an appropriate timetable in place to guide the Financial Reporting process in line with statutory reporting requirements

| Ref. | Finding | Sig. | Recommendation |
|--|--|------|---|
| 2 | <p>It is important that there is a timetable in place to guide the financial reporting process.</p> <p>Although we found no issues in relation to the Organisation meeting reporting requirements, we found that there is currently no timetable in place.</p> <p>There is a risk that key actions, deadlines and review stages are missed as a result of a lack of a formal reporting timeline.</p> | ● | <p>We recommend that the Organisation develops a financial reporting timetable and checklist for annual reporting. This should include deadlines, key review stages (including line-by-line check - see finding ref. 02), and roles and responsibilities.</p> |
| MANAGEMENT RESPONSE | | | RESPONSIBILITY AND IMPLEMENTATION DATE |
| <p>Agreed. An outline timetable for the year is included within the 17/18 tracking spreadsheet and will be incorporated future trackers. A copy of the 17/18 tab is included as an attachment.</p> | | | <p>Responsible Officer: Finance Manager</p> <p>Implementation Date: immediate</p> |

OBSERVATIONS

Finance and Delivery Committee Training and Induction Pack

We interviewed a member of the Finance and Delivery Committee and found that, although there was a broad level of satisfaction with the financial reporting information reported at each meeting, there were new committee members who had not yet received induction training. Through further enquiry we found that training was planned to take place within Q2 of 2018, although there was no induction pack provided to all members to ensure they clearly understand their roles and responsibilities in the meantime.





We recommend that - in addition to delivering the planned Finance Committee training - the Organisation develops an induction pack to be provided to all members which clearly sets out their roles and responsibilities and key information, including the financial memorandum.




APPENDIX I - STAFF INTERVIEWED

| NAME | JOB TITLE |
|----------------|--------------------------------|
| Rebecca Badger | Finance Committee Member |
| David Cameron | Director of Corporate Services |
| 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

As part of the 2017/18 Internal Audit Plan, it was agreed that Internal Audit would carry out a review of the Financial Reporting arrangements in place at Cairngorms National Park Authority. We will assess the robustness of the reporting in place, whether an appropriate timetable is in place to comply with statutory reporting requirements, and whether effective financial reporting arrangements are in place to deliver clear, accurate and timely reports.


PURPOSE OF REVIEW

The purpose of this review is to provide management and the Audit Committee with assurance on the design and effectiveness of the key controls in place in relation to the financial planning and reporting arrangements.

KEY RISKS

Based upon the risk assessment undertaken, discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

- Financial information reported does not meet user requirements and support users in discharging their responsibilities in accordance with the Financial Memorandum;
- Financial information is not reported in accordance with Scottish Government requirements;
- Financial information reported does not address key organisation risks;
- Financial information reported is inaccurate and may not agree to underlying systems;
- Performance measures have not been included in the information reported, performance is not compared to target and variances explained; and
- There is not an appropriate timetable in place to guide the Financial Reporting process in line with statutory reporting requirements.



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