

Cairngorms National Park Authority

INTERNAL AUDIT REPORT

Project Financing

December 2016

LEVEL OF ASSURANCE

Design	Operational Effectiveness
Substantial	Substantial



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REPORT STATUS	
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DISTRIBUTION LIST	
David Cameron	Director of Corporate Services
Audit Committee	

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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	
Effectiveness	 The controls that are in place are being consistently applied.	Medium	
		Low	 
		Total number of recommendations: 2	

OVERVIEW
<p>Background</p> <p>LEADER and Tomintoul & Glenlivet Landscape Partnership projects represent significant project activities on which Cairngorms National Park Authority (CNPA) has a lead stewardship role for financial management, accounting and grant claims.</p> <p>As part of the 2016-17 Internal Audit plan, it was agreed that Internal Audit would provide management and the Audit Committee with a level of assurance that CNPA has put in place effective processes to ensure project accounting is separated from main CNPA accounts, cash flow considerations associated with these activities are managed effectively and project expenditure is recorded and managed effectively.</p> <p>The LEADER programme is a European Union initiative which aims to increase support to local rural community and business networks to build knowledge and skills, and encourage innovation and co-operation in order to tackle local development objectives. LEADER is part of the Scottish Rural Development Programme 2014-2020, for which CNPA is an Accountable Body.</p> <p>The Tomintoul & Glenlivet Landscape Partnership project aims to use the rich heritage of Tomintoul & Glenlivet area, which covers approximately 200 square kilometres of the Cairngorms National Park, to promote rural regeneration. The vision is for the communities of Tomintoul and Glenlivet to share and celebrate the hidden heritage of the area, enhancing the landscape, heritage, skills and development opportunities in the long term. Planned work includes projects to improve the museum and visitor centre in Tomintoul, gather oral history, conserve important buildings, restore woodland and improve paths in the area. Funding from the Heritage Lottery Fund (HLF), CNPA, Crown Estate and Highlands and Islands Enterprise, in addition to in-kind support from other partners such as the Tomintoul & Glenlivet Development Trust, contributed to developing detailed proposals for these project.</p>

EXECUTIVE SUMMARY

OVERVIEW

In October 2016, the HLF announced a grant award of £2.34million to support the regeneration projects in this area. The HLF bid is a partnership project within the Tomintoul & Glenlivet Development Trust, with CNPA acting as the Applicant.

The roles and responsibilities of CNPA, Cairngorms Local Action Trust (CLAT) and Cairngorms Local Action Group (CLAG) in relation to LEADER have been documented within a Memorandum of Agreement between the bodies, which was agreed in December 2014. The CLAT is responsible for monitoring the income and expenditure position of LEADER. CNPA is responsible for the receipt and effective stewardship of all LEADER resources made available by the Scottish Government, and is also responsible for supplying cash flow financing and providing support on financial and management accounting, creditor payments and grant disbursements.

In relation to the Tomintoul & Glenlivet Landscape Partnership project, the roles and responsibilities of the Project Board, Project Team and the Applicant (CNPA) have been documented within a Partnership Agreement, which was agreed in July 2015. CNPA, as the Applicant for HLF funding, is responsible for the overall financial management. The Agreement describes that the Applicant should oversee the financial management, monitoring and reporting of the Project, guided by the Project Manager and act as grant recipient on behalf of the Partners. The Applicant must submit the Project's returns to HLF on a quarterly basis for reimbursement of funds in arrears. CNPA is responsible for administering a separate financial cost centre; letting contracts in line with HLF procurement guidelines for the implementation of project activities and proposals as appropriate; and securing, establishing, and operating appropriate financial management procedures.

Financial data relating to the LEADER and Tomintoul & Glenlivet Landscape Partnership projects is recorded separately within CNPA's management accounts. Management accounts are prepared on a monthly basis by CNPA's Finance Manager. Within the accounts, the income and expenses are listed separately for Core (CNPA), LEADER and Tomintoul & Glenlivet activities. Staff costs, such as pensions, salary and National Insurance, and cash at bank have also been identified separately for each of the projects.

LEADER claims for reimbursement are submitted to the Scottish Government on a quarterly basis, in the form of an excel spread sheet with any electronic supporting evidence required. A Scottish Government Administration Claims Guidance document has been provided to all CLAG staff, which provides guidance on evidencing expenditure, breaches and penalties, separation of duties, requests and returns, and key LEADER Finance team contacts. The document lists the eligible LEADER expenses, including direct staff costs, training, events and travel and subsistence. All expenditure must be supported by a fully transparent audit trail.

Tomintoul & Glenlivet claims are submitted on a quarterly basis to the Heritage Lottery Fund. The Programme Manager is responsible for reviewing the relevant invoices to ensure the totals within the claim are in agreement with the supporting invoices.

EXECUTIVE SUMMARY

OVERVIEW

The financial reporting arrangements in place for the LEADER and Tomintoul & Glenlivet Landscape Partnership projects include the Finance & Delivery Committee receiving quarterly reports providing a summary review of income and expenditure. A written update is provided on the LEADER and Tomintoul & Glenlivet projects, in addition to Core activities.

Quarterly reports are provided to the Tomintoul & Glenlivet Landscape Partnership, which are prepared by CNPA's Finance Manager. These reports provide a dashboard on the project, detailing the monetary value of partners' contributions, project spend and project spend profiled, and an extract of income and expenditure to date. A graph highlighting actual and projected cash flow is also included.

Quarterly reports are prepared by the Director of Corporate Services at CNPA and are provided to the Local Action Groups Board. The reports focuses on LEADER, and discusses various matters, such as the number of project applications received and their monetary value, expenditure and project costs and pipeline of funds. The report also discusses stakeholder engagement activity and workshops, risks and issues and KPIs.

Scope and Approach

The scope of this review was to assess whether the roles and responsibilities, particularly financial responsibilities of Cairngorms National Park Authority and the Partnership Boards in relation to project activities are clearly defined and whether there is clear financial separation between Cairngorms National Park Authority activities and project activities. We also assessed whether there is a sound understanding of eligible project expenditure and an effective process in place for claiming eligible expenditure. In addition, we evaluated whether there are effective processes in place to ensure sufficient management information is provided to Partnership Boards to discharge their role; and whether there are robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting and cash flow expectations.

Our approach was to review key financial documentation in relation to the LEADER and Tomintoul and Glenlivet Landscape Partnership Projects and interview key staff to assess whether the design of the controls is appropriate and these controls are operating effectively and as described.

EXECUTIVE SUMMARY

OVERVIEW

Good Practice

We note a number of areas of good practice. The financial roles and responsibilities for the LEADER and Tomintoul & Glenlivet Landscape Partnership projects are concise and have been clearly documented and provided to all relevant individuals. Management accounts are prepared on a monthly basis. The accounts are supported by an excel spread sheet, which is monitored and updated on an ongoing basis by CNPA's Finance Manager. The income and expenditure of CNPA, LEADER and Tomintoul & Glenlivet are clearly separated within the management accounts. In addition, there is regular financial reporting on the projects in place to inform management on spend and activity.

Key Findings

Notwithstanding the elements of good practice noted above, our review highlighted opportunities for improvement, which are summarised below:

Tomintoul & Glenlivet eligible expenditure - There is no written guidance to staff indicating expenses which are eligible to be claimed against the Tomintoul & Glenlivet Landscape Partnership project. However, we note that the quarterly claims submitted to the Heritage Lottery Fund have never been rejected due to ineligible expenses being claimed.

Cash flow reporting - There is no detailed reporting to the Finance & Delivery Committee or Partnerships Boards on actual and expected cash flows for the Leader and Tomintoul & Glenlivet Landscape Partnership projects.

Conclusion

We are able to give substantial assurance over the design and effectiveness of the controls in place. However, there are opportunities to enhance the current reporting arrangements and introduce formal guidance to staff on claiming eligible expenditure.

EXECUTIVE SUMMARY

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

- ✓ The roles and responsibilities, particularly financial responsibilities, of Cairngorms National Park Authority and the Partnership Boards in relation to project activities may not have been clearly defined.
- ✓ There may not be clear financial separation between Cairngorms National Park Authority activities and project activities.
- ✓ There may not be a sound understanding of eligible project expenditure or an effective process in place for claiming eligible expenditure.
- ✓ There may not be effective processes in place to ensure sufficient management information is provided to Partnership Boards to discharge their role.
- ✓ There may not be robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting and cash flow expectations.

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: There may not be a sound understanding of eligible project expenditure or an effective process in place for claiming eligible expenditure.

Ref.	Finding	Sig.	Recommendation
1	<p>Detailed guidance on eligible project expenditure would help to ensure that a consistent approach is taken to claiming expenditure against a project.</p> <p>There is no written guidance available to staff indicating expenses which are eligible to be claimed against the Tomintoul & Glenlivet Landscape Partnership project. However, we note that the quarterly claims submitted to the Heritage Lottery Fund have never been rejected due to ineligible expenses being claimed.</p> <p>There is a risk that there is not a sound understanding of eligible project expenditure.</p>	●	<p>We recommend that staff are provided with guidance on the eligible expenditure that can be claimed against the Tomintoul & Glenlivet Landscape Partnership project. The guidance should also describe any supporting evidence required to be provided. Cairngorms National Park Authority should consider liaising with the Heritage Lottery Fund to agree on and confirm the expenses considered eligible to be claimed against the project.</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed. We expect that the grant application to HLF sets a broad framework for project and expenditure eligibility. It is, though, a sensible additional control mechanism for the Authority to liaise with HLF to agree matters of eligibility more explicitly.</p>			<p><i>Responsible Officer: Head of Conservation and Land Management, with Finance Manager</i></p> <p><i>Implementation Date: 31 March 2017</i></p>

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: There may not be robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting and cash flow expectations.





Ref.	Finding	Sig.	Recommendation
2	<p>A statement of cash flows analyses changes in cash and cash equivalents during a period.</p> <p>There is no detailed reporting to the Finance & Delivery Committee or Partnerships Boards on actual and expected cash flows for the Leader and Tomintoul & Glenlivet Landscape Partnership projects.</p> <p>There is a risk that cash flow performance is not being regularly monitored and scrutinised appropriately.</p>	●	<p>We recommend that the Finance & Delivery Committee and Partnership Boards receive quarterly reporting on cash flow performance for both the LEADER and Tomintoul & Glenlivet Landscape Partnership projects. The reporting should detail actual against expected cash flows, and forecasted cash flows.</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Agreed. This is a sensible addition to our reporting to Finance and Delivery Committee given the increased risk around cash flow management posed by the projects for which we are acting as lead partner.</p>			<p><i>Responsible Officer: Finance Manager</i></p> <p><i>Implementation Date: 31 March 2017</i></p>




APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
David Cameron	Director of Corporate Services
Danie Ralph	Finance Manager
Hamish Trench	Director of Conservation and Visitor Experience

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


PURPOSE OF REVIEW

The purpose of this review is to provide management and the Audit Committee with a level of assurance that Cairngorms National Park Authority has put in place effective processes to ensure project accounting is separated from main Cairngorms National Park Authority accounts, cash flow considerations associated with these activities are managed effectively and project expenditure is recorded and managed effectively.

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:

- The roles and responsibilities, particularly financial responsibilities, of Cairngorms National Park Authority and the Partnership Boards in relation to project activities may not have been clearly defined;
- There may not be clear financial separation between Cairngorms National Park Authority activities and project activities;
- There may not be a sound understanding of eligible project expenditure or an effective process in place for claiming eligible expenditure;
- There may not be effective processes in place to ensure sufficient management information is provided to Partnership Boards to discharge their role; and
- There may not be robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting and cash flow expectations.



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