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CAIRNGORMS NATIONAL PARK AUTHORITY
Audit and Risk Committee Paper 2 Annex 1 19/02/16

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

DRAFT

Internal audit report 2016.1
Cash generating income streams report
9 February 2016

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

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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 and extended as of the letter dated 28 August 2014 (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.

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Introduction and scope

In accordance with the 2015-16 annual internal audit plan for Loch Lomond & The Trossachs National Park Authority (“LLTNPA”) and Cairngorms National Park Authority (“CNPA”), as approved by the audit committees, we have performed an internal audit review of cash generating income streams at LLTNPA and CNPA (“the Authorities”).

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

Background

As with many publicly funded organisations, pressures from reductions in Scottish Government funding and cost inflation increases the importance of maximising commercial income. Where income is received in cash, it is key that there are controls to effectively mitigate risks related to cash handling and undercharging of commercial income.

LLTNPA

The Authority owns a variety of assets and resources which enables it to generate commercial income. These range from provision of property for rental income, to fees charged at the slipway and sale of goods.

Responsibility for the identification of commercial income streams was delegated to the new Director of Estates & Commercial Development, who commenced his role in November 2015. Due to this appointment being only recent, the focus of the review was on the future strategy to be developed as opposed to actions and strategies that have already been established. The points below were identified and raised by the new Director of Estates & Commercial Development

The future focus is on developing an Estates and Asset Management strategy through a three to five year plan. The main areas of interest will be achieving cost savings alongside identifying new income streams. From a commercial income perspective, it was recognised that a review over available assets should be conducted to identify new potential income opportunities. In particular, assessing property that is controlled by the Authority could identify opportunities for reorganisation of available space leading to new rental potential.

Another area of potential interest identified by management is exploring revenue potential in corporate markets. There are resources available that could be of interest to various businesses, such as use of available space for corporate events and sponsorship opportunities. Consideration should be given to ensure that the pricing for venues and property is in line with market prices and that services are being charged at comparable rates to other providers of similar services.

It was identified that significant revenue potential through the water space is available in areas of Loch Lomond through constructing a marina. Effective financial appraisal of any proposed projects is key to the process, this is in addition to considering the impact of any matters such as such as legal and environmental.

CNPA

CNPA has limited controllable assets and resources available to generate additional income. As a result the focus of the review was considering the process through which available funds for any given projects are identified and assessed. This involved understanding how projects emerge from the National Parks Partnership Plan are then transformed into objectives in CNPA's annual plan.

The Tomintoul & Glenlivet project was reviewed to gain an understanding of the process through which funding options are identified. The project relates to an area within the National Park with development potential. It was identified as a priority under the National Parks Partnership five year plan and as a result it was incorporated into CNPA's corporate plan. The project is managed by CNPA and is supported by a partnership of various sources such as the Moray Council, Crown Estate and other enterprises. The majority of funding is through an agreement with the Heritage Lottery Fund to provide 55% of the total costs of the project. In addition, funding has been secured from Highlands and Islands Enterprise, Chivas and other Development Trusts to contribute towards completion of the project.

There is no formal mechanism to identify funding opportunities either through government or external sources. The reliance is on the knowledge and experience of the operation managers in identifying available sources. All major projects involve a number of parties and therefore a level of reliance is placed on the collective knowledge of a partnership group to identify any potential funding sources. This appears to be an effective mechanism in relation to securing Public Sector funding for major projects.

There is no history of securing funding from the corporate sector, as the knowledge and experience lies within the Public Sector. LLTNPA has recently appointed a new Director for Estates and Commercial development creating the potential to utilise its resources under the existing partnership agreement between the authorities to utilise the corporate sector more effectively

We identified no ‘critical’, ‘high’ or moderate graded recommendations for either Authority in the course of our work.

LLTNPA:
We identified one ‘low’ graded recommendation. We also identified areas of good practice.

CNPA:
We identified three ‘low’ graded recommendations. We also identified areas of good practice.

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 | - | - | - | 3 |
| Number of recommendations accepted by management | LLTNPA | - | - | - | 1 |
| | CNPA | - | - | - | 3 |

The audit of the cash generating income process in both Authorities showed that the controls are appropriately designed and are operating effectively on the whole.

LLTNPA

- No moderate graded recommendations were found

CNPA

- No moderate graded recommendations were found

We summarise areas of good practice.

Areas of good practice

LLTNPA

- A comprehensive cash handling and banking procedures manual is being prepared by management and is in draft format. This document details the processes and policies in relation to payment methods, cash handling, reconciliation of income, banking and transporting of cash. It also specifies tailored procedures in relation of each site that has an element of cash handling.
- Strong budgetary controls enable management to identify and monitor variations from budget on a timely basis. Key matters are communicated to the executive team in a timely manner with clear action points for individuals.
- A charging price document outlines prices for 2015-16. This identifies the charge for each of the available income streams and pricing of products sold. The document contains recommendations to the executive team, including a brief outline of expected changes to pricing in 2016-17.

The charging price document has not been reviewed and updated for 2016-17 year as yet. This is due to the majority of assets and resources that generate commercial income being transferred under the remit of Estates and Commercial Development. A new Director joined the Authority in November, therefore given the timing of the review it is not expected that the commercial strategy and charging prices will be finalised for the coming financial year. This is scheduled to be completed by the end of the Authority's financial year.

CNPA

- There are robust procedures to monitor income and expenditure against budget on a timely basis. Information is communicated effectively with management and operations teams. Communication is also extended to the finance committee on a semi-annual basis to communicate any expected over or under spending against budget.

The summary of findings summarises the risks identified, the processes to mitigate the risks and our findings.

| Identified potential risk | LLTNPA processes | KPMG finding |
|---|---|--|
| Processes and controls to mitigate risks to invoicing and cash handling | | |
| <p>Lack of controls over recording of cash receipts and recording of invoices might lead to instances of fraud or inaccurate financial reporting.</p> | <p>There are established procedures through which invoices are initiated, recorded and authorised. Receipts are matched to invoices raised, ensuring that any money received is identified and any outstanding payments are tracked.</p> <p>A till system is operated at the slipway to record related income. Evidence from sample testing showed that reconciliations are performed weekly between till systems outputs, cash banked and credit card receipts to identify variances. Testing was performed over property rental income and toilet charge income and robust controls are in place in relation to the initiation and raising of invoicing as well as cash receipting.</p> <p>We tested controls over debtors as part of the separate control risk self assessment review.</p> | <p>Satisfactory</p> |
| <p>Lack of segregation of duties subjects the Authority to the risk of fraud and error.</p> | <p>A member of the finance team is responsible for handling invoice requests, which are then authorised by a more senior member within finance.</p> | <p>Through the sample tested it was identified that invoices have been entered and authorised by the same individual.</p> <p>Due to the limited number of staff, in busy periods and periods of holiday several parts of the process are performed by one individual.</p> <p>Recommendation one</p> |

Summary of findings – LLTNPA (continued)

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| Identified potential risk | LLTNPA Processes | KPMG finding |
|---|--|----------------------------|
| Reviewing adequacy of budgetary controls | | |
| <p>Variations between expected income and actual income received are not identified. This can lead to the funding necessary to achieving strategic objectives not being attained.</p> | <p>On a monthly basis the finance team prepares a budget variance review. This is analysed by the Financial Performance Manager who highlights variances and summarises into a Word document that is presented to the executive committee. Action points are generated for the individuals responsible to act upon and rectify any variances</p> <p>From the sample tested, the process above operated as described.</p> | <p>Satisfactory</p> |
| Ensuring goods and services are appropriately charged | | |
| <p>Available assets and resources for commercial income are not being utilised in the most efficient manner.</p> | <p>The review of relevant documents highlighted that a charging price paper is in place which sets out the price of the different services as well as goods sold. Setting prices for 2015-2016 involved benchmarking against similar services and providers. This was presented to the executive team for review and approval for 2015-16.</p> | <p>Satisfactory</p> |

The summary of findings summarises the risks identified, the processes to mitigate the risks and our findings.

| Identified risk | CNPA processes | KPMG finding |
|--|--|--|
| Processes and controls to mitigate risks to invoicing and cash handling | | |
| <p>Lack of controls over recording of cash receipts and recording of invoices might lead to instances of fraud or inaccurate financial reporting</p> | <p>A request to raise an invoice or lodge a grant claim is put to finance from various departments. The finance assistants raise the invoice with the relevant details. The invoice then requires the approval of the finance manager who records the journal on Sage. Upon receipt of cash, the Finance Assistant matches the receipt to income records on Sage</p> <p>We tested controls over debtors in the separate control risk self assessment review.</p> | <p>As a result of testing the operating effectiveness of controls over a sample of cash receipts, it was identified that the functionality of raising invoices is not available on the version of SAGE being used.</p> <p>As a result the finance manager who authorises invoices is required to manually post the invoice. This gives rise to a risk of error over recording income.</p> <p>Recommendation one</p> |
| <p>Lack of segregation of duties subjects the Authority to the risk of fraud and error not being identified</p> | <p>Cash receipts matching is performed by a member of the finance team other than the person responsible for authorising invoices.</p> <p>This was confirmed through our testing of operating effectiveness of invoicing and cash handling controls.</p> | <p>Satisfactory</p> |

Summary of findings – CNPA (continued)

DRAFT

| Identified risk | CNPA processes | KPMG finding |
|---|---|---|
| Reviewing adequacy of budgetary controls | | |
| <p>Variations between expected income and actual income received not identified. This can lead to funding necessary to achieving strategic objectives not being attained.</p> | <p>On a monthly basis actual income and expenditure figures are compared to budget to identify the level of spending remaining in the financial year. Results are communicated on a regular basis to the management team as well as operations managers.</p> <p>The various reports and information communicated to different levels of management were reviewed.</p> | <p>Procedures are in place to identify potential under or over spending against expected income.</p> <p>The control over monitoring budgets however does not focus on analysing actual income received from funding against the expectation.</p> <p>Recommendation two</p> |

| Identified risk | CNPA Processes | KPMG finding |
|--|--|---|
| Identifying and appraising new income streams | | |
| <p>Due to funding challenges which impact budgets for the coming years, it is important to identify new income streams, to increase commercial income for the Authority.</p> | <p>Unlike many other authorities the Authority has limited commercial generating income assets and services such as pontoons and piers and visitor car parks.</p> <p>The management team is exploring potential opportunities in relation to the “Cairngorms” brand, specifically capitalising on merchandising potential. Management is also exploring potential of commercial opportunity from aligning local businesses with the brand dependant upon passing certain values and business practices.</p> <p>Management is aware of some potential income through donations from businesses operating within the Park, specifically businesses with operations based on their location within the Park. Management is yet to contact local hotels and business to assess and realise potential income.</p> <p>The Authority's website is the one of the main research resources for the park visitors and therefore has potential to attract revenue from local businesses that can associate themselves with the park.</p> <p>There is potential to generate funds for the Authority through associating the park with CSR initiatives of private companies. The Authority can promote sponsorship of projects within the park as part of CSR initiatives of various firms.</p> | <p>A good level of uptake has been established in relation to associating businesses to the brand however no commercial results have been achieved.</p> <p>It is recognised that there is potential for income through donations from visitors on organised walks. No action has been taken to establish a mechanism of achieving that.</p> <p>Another potential for new income generation is through associating funding projects within the park as part of the corporate social responsibility activities of various companies.</p> <p>Recommendation three</p> |

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

| Finding(s) and risk | Recommendation(s) | Agreed management actions |
|---|--|---|
| 1 Segregation of duties | | |
| <p>There is a lack of segregation of duties within the finance team.</p> <p>We identified that the members of the finance team are able to raise invoices and authorise them to be sent to customers, as well as recording the receipt of cash. The individual is responsible for preparing bank reconciliations and therefore has access to the full accounting entries.</p> | <p>It is important to segregate duties amongst available staff to mitigate risks in relation to fraud by not allowing one individual to have responsibilities in relation to both the invoicing and receipting side of a transaction.</p> <p>We therefore recommend that segregation be established between the invoicing, and the receipting of cash.</p> | <p style="text-align: center;">Low</p> <p>Accepted. Sales invoicing will be carried out by the Finance Assistant and batching of invoices will be performed by the Finance and Procurement Manager. The Finance Adviser system access will be restricted to exclude sales invoice processing and batching.</p> <p>Responsible officer: Andy Jump Implementation date: March 2016</p> |

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

| Finding(s) and risk | Recommendation(s) | Agreed management actions |
|---|---|--|
| 1 Cash handling and invoicing | | Low |
| <p>We identified that invoices are not initiated on Sage and are manually raised, then recorded on a spreadsheet. Details from the spreadsheet are recorded through journal entries on Sage.</p> <p>The process involves a manual element which increases the risk of error. Due to the process being external to Sage, erroneous invoices could be raised and recorded.</p> <p>The compensating control is that cash receipts are matched to invoices raised and therefore human errors in journals would be detected.</p> <p>From the sample of income tested no errors were found however the process carries an element of inherent risk.</p> | <p>We recommend that management investigates the viability of activating a sales ledger on Sage which would enable invoices to be raised within the system and automatically recorded.</p> <p>We recommend that the process is split between three individuals within the finance team. This would enable the invoice initiation, authorisation and recording to be performed by three individuals and therefore reducing the risk of error as well as improving segregation of duties.</p> | <p>Accepted. A review will be performed to activate the sales ledger within Sage</p> <p>Responsible officer: Danie Ralph</p> <p>Implementation date: August 2016</p> |

| Finding(s) and risk | Recommendation(s) | Agreed management actions |
|---|--|--|
| 2 Analysing income received compared to budget | | Low |
| <p>When reviewing the documents produced as part of the budgetary control, the emphasis in the monthly reports to management team and operations management is on expenditure analysis excluding income.</p> <p>The organisation is mainly focussed on ensuring that available funding is used; it is important to frequently assess whether income is received on a timely basis and that grant claims are processed when due.</p> | <p>We recommend that monthly tracking of funding income received against budgeted to ensure that all available grants are being recovered.</p> | <p>Accepted. Tracking of income received against budget will be enhanced from 1 April 2016</p> <p>Responsible officer: Danie Ralph</p> <p>Implementation date: August 2016</p> |

| Finding(s) and risk | Recommendation(s) | Agreed management actions |
|--|--|--|
| 3 Generating commercial income | | Low |
| <p>No actions have been taken to assess the feasibility of obtaining donations for the Authority through walks that are organised by hotels in the area.</p> <p>The potential for commercial income through associating the Authority with CSR activities of corporate firms has not been explored</p> <p>There is a risk that with challenges in funding and lack of commercial income the Authority is not able to explore further development projects or achieve its strategic priorities.</p> | <p>A cost benefit analysis of merchandising the “Cairngorms” logo is required along with evaluating proposals to carry out the project.</p> <p>Private sector companies should be approached to integrate and create CSR initiatives with projects undertaken in the park.</p> | <p>Accepted. Cost benefit analysis will be performed before significant resources are allocated to the projects.</p> <p>Responsible officer: David Cameron</p> <p>Implementation date: August 2016</p> |

Appendices

In accordance with the 2015-16 internal audit plan for Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (“the Authorities”), we will undertake an internal audit review of cash generating income streams.

Pressures from reductions in Scottish Government funding and increases in costs increase the importance of commercial income. In many cases, income is received in cash and it is important that controls are in place to effectively mitigate the risks of loss and undercharging associated with this type of income.

Objective

During routine external audit controls testing, weaknesses in some specific areas of cash handling controls were identified. The overall objective of this audit is to provide assurance over the effective design and operation of controls over the handling and recording of cash receipts, the appropriate charging of goods and service, and the monitoring of cash generating income streams against budget.

Scope

We will:

- Gain an understanding of the nature and scale of cash generating income streams at the Authority;
- Determine how management ensures goods and services are appropriately charged for and assess the effectiveness of this in practice;
- Determine whether processes and controls are appropriately designed to mitigate identified risks to cash handling, change management procedures, and recording of receipts;
- Select a sample of cash receipts and test the operating effectiveness of identified cash management controls; and
- Review the adequacy of budgetary control and financial reporting arrangements across cash generating income streams.

Approach

We will adopt the following approach in this review:

- project planning and scoping;
- conduct interviews with staff to gain an understanding of the processes and controls in place;
- examine documentation as detailed within the scope;
- identify and agree key risks and controls with management;
- test the design and operating effectiveness of key controls through sample testing and discussion with officers; and
- agree findings and recommendations with management.

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. | <ul style="list-style-type: none"> ■ Potential financial impact of more than £400,000. ■ 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. ■ Major decline in service/product delivery, value and/or quality recognised by students and customers. ■ Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty. ■ Life threatening. | <ul style="list-style-type: none"> ■ Requires immediate notification to the audit and compliance 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 audit and compliance 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. | <ul style="list-style-type: none"> ■ Potential financial impact of between £200,000 to £400,000. ■ Major impact on operations or functions. ■ Serious diminution in brand value and/or market share ■ Probable decrease in the public's confidence in the Authority. ■ Significant decline in service/product delivery, value and/or quality recognised by students and customers. ■ Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty. ■ Extensive injuries. | <ul style="list-style-type: none"> ■ 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. |

| 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. | <ul style="list-style-type: none"> ■ Potential financial impact of between £50,000 to £200,000. ■ Moderate impact on operations or functions. ■ Brand value and/or market share 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 students and customers. ■ Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty. ■ Medical treatment required. | <ul style="list-style-type: none"> ■ 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. | <ul style="list-style-type: none"> ■ Potential financial impact of less than £50,000. ■ Minor impact on internal business only. ■ Minor potential impact on brand value and market share. ■ Should not decrease the public's confidence in the Authority. ■ Minimal decline in service/product delivery, value and/or quality recognised by students and customers. ■ Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty. ■ First aid treatment. | <ul style="list-style-type: none"> ■ 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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