



Cairngorms National Park Authority

Annual Audit Plan
2015/16

Prepared for Cairngorms National Park Authority

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Asif A Haseeb, Engagement Lead, Audit Scotland is the appointed external auditor of Cairngorms National Park Authority for the period 2011/12 to 2015/16.

This report has been prepared for the use of Cairngorms National Park Authority and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Audit & Risk Committee. The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement and irregularity in Cairngorms National Park Authority's ("CNPA"/"the Park Authority") financial statements.
 2. This report summarises the key challenges and risks facing the Park Authority and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
 - the risks and priorities facing CNPA
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.
- the expenditure and income for the year were incurred or applied in accordance with applicable legislation and guidance issued by Scottish Ministers
 - the accounts have been properly prepared in accordance with the National Parks (Scotland) Act 2000 and directions made by Scottish Ministers.
 - a review of the financial management arrangements and its financial sustainability
 - a review and assessment of the Park Authority's governance and performance arrangements in a number of key areas including:
 - systems of internal control
 - prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
 - financial position.
 - a local follow-up on Audit Scotland's national report *Scotland's Public Sector Workforce*.

Summary of planned audit activity

3. Our planned audit work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of CNPA

Responsibilities

4. The audit of the financial statements does not relieve management or the Audit & Risk Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Accountable Officer

7. It is the responsibility of the Park Authority and the Accountable Officer (appointed by Scottish Ministers), to prepare the financial statements in accordance with the National Parks (Scotland) Act 2000 and directions by Scottish Ministers. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
 - maintaining proper accounting records

- preparing financial statements timeously which give a true and fair view of the financial position of CNPA as at 31 March 2016 and its expenditure and income for the year then ended
- preparing an annual report, including performance report, accountability report and the financial statements.

Format of the accounts

8. The financial statements should be prepared in accordance with the Accounts Direction by Scottish Ministers and comply with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and adapted by the 2015/16 Government Financial Reporting Manual (FReM).

Audit Approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Park Authority. We also consider the key audit risks and challenges in the central government sector generally. This approach includes:
- understanding the business of CNPA and the associated risks which could impact on the financial statements
 - assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how the Park Authority will include these in the financial statements
 - assessing the risks of material misstatement in the financial statements
 - determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.
10. We have also considered the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas of the financial statements. The main areas of assurance for the audit come from planned management action. Planned management action being relied on for 2015/16 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for provision of accounts and working papers being agreed
 - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
 - completion of the internal audit work programme for 2015/16.
11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible. Internal audit is provided by KPMG LLP. This is the last year of KPMG's current internal audit contract and the internal audit arrangements for 2016/17 onwards are yet to be finalised.
12. We plan to carry out a review of the effectiveness of the internal audit function to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
13. We plan to place formal reliance on the work of internal audit in payroll and pensions administration to support our audit opinion on the financial statements.

14. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
- Commercial Developments
 - Post-implementation of Project Management
 - Post-implementation of Records Management
 - Planning Processes and Systems
 - Workforce Management and Appraisals
 - Complaints Handling
 - Controls Risk Self Assessment
 - Governance and New Board Members – Roles and Inductions.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting

our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.

17. Based on our knowledge and understanding of CNPA we have set our planning materiality at £46,000 (1% of gross expenditure). We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:
- extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
18. For 2015/16 performance materiality has been set at £28,000. We will report, to those charged with governance, all misstatements identified which are greater than £1,000.

Reporting arrangements

19. Under the Public Finance and Accountability (Scotland) Act 2000, there is a requirement for the audited financial statements of CNPA to be presented to Parliament within nine months of the financial year end i.e. 31 December. The CNPA preference is to have the audit process completed by 31 August and we have agreed an audit timetable accordingly.

20. To support the efficient use of resources it is critical that a timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned Audit & Risk Committee dates:

Exhibit 1: Financial statements audit timetable

Key stage	Date
Meeting with officers to clarify working paper expectations	February 2016
Latest submission of unaudited financial statements with complete working papers package	29 April 2016
Progress meetings with officers on emerging issues	As required during audit
Latest date for final clearance meeting with management	27 May 2016
Issue of combined ISA260 and Proposed Annual Audit Report to the Accountable Officer	17 June 2016
Audit & Risk Committee date	24 June 2016
Independent auditors report signed and annual audit report finalised	24 June 2016
Latest date for laying and publishing the annual report and accounts	30 November 2016

21. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the Director of Corporate Services to confirm factual accuracy. Responses to draft reports are expected within one week of submission. A copy of all final agreed reports will be sent to the Chief Executive, Director of Corporate Services, Finance Manager, Internal Audit and the Auditor General's office.
22. We will provide an independent auditor's report to CNPA and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.
23. All annual audit reports and reports to management produced by Audit Scotland are published on our website: www.audit-scotland.gov.uk.
24. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Quality control

25. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our

quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews, internal quality reviews and external quality reviews.

26. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Asif A Haseeb.

Independence and objectivity

27. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.
28. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Park Authority.

Audit issues and risks

29. Based on our knowledge, discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the Park Authority. We have categorised these risks into financial risks and wider dimension risks. The financial statement issues and risks, which require specific audit testing, are detailed below and summarised in [Appendix 2](#).

Financial statements risks

30. **Management Override of Controls** - Auditing standards (ISA 240 *The auditor’s responsibility to consider fraud in an audit of financial statements*) highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively. The ability to override these controls exists in all entities and therefore represents a significant financial statements risk due to fraud. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.
31. **Grant Income and Expenditure Recognition** – In 2014/15, as a result of the audit process, management agreed to adjust the accounts to derecognise £151,440 of income and £20,000 of expenditure. Management should ensure that the financial statements only recognise amounts which are allowable and attributable to the financial year. We will substantively test this at

the financial year-end to ensure that all income and expenditure agree with the relevant accounting standards and the formal grant letters in place.

- 32. Other Assets** – The Park Authority have an asset currently under construction which is expected to be completed by the financial year-end. CNPA have advised that this may be classed as a Heritage Asset, with all associated costs in relation to the construction of the asset to be capitalised and any other costs to be written off. This is an unusual transaction and we will substantively test this at the financial year-end to verify that the asset and all associated costs have been correctly accounted for.
- 33. Tagging of Non-Current Assets** - In 2013/14, we found that the Park Authority does not tag all of its assets. The Park Authority has made some progress in tagging its non-current assets. However, not all assets listed on the asset register have an asset number. Management should ensure that all assets listed in the non-current asset register are tagged with a unique reference number. We will substantively test this at the financial year-end to verify the completeness of the asset register and the existence of the assets.
- 34. Tomintoul & Glenlivet** - CNPA are the lead partner on the Tomintoul & Glenlivet Landscape Partnership. This is a substantial project which brings together a number of community and public sector bodies to work on a variety of projects that will deliver significant benefits to the social, cultural and natural landscape of Tomintoul & Glenlivet. As lead partner, CNPA will process all income and expenditure transactions and as this is a new arrangement, we will substantively test this at the financial year-end to ensure that all associated costs have been correctly accounted for.
- 35. Annual Leave Accrual** – In 2014/15, we found that the Park Authority did not calculate its annual leave accrual correctly. Management have agreed to review the process for 2015/16 and we will substantively test this at the financial year-end to ensure that annual leave accrual calculation is correct.
- 36. Restructuring of Annual Report** – The financial statements are prepared in accordance with the Government financial reporting manual (FReM). The 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- A performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section.
 - An accountability report incorporating the following three main sections:
 - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
 - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
 - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

37. We have held discussions with CNPA who are aware of the changes. In addition, we will review the performance and accountability reports as part of the financial statements audit to ensure compliance with the FReM and report our findings in the annual audit report.

Wider dimension issues and risks

38. **Workforce Planning** - Audit Scotland published a report on *Scotland's Public Sector Workforce* in November 2013. We will carry out local follow up work, based on the recommendations in the 2013 report.

Fees and resources

Audit fee

39. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.

40. In determining the audit fee we have taken account of the risk exposure of CNPA, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited

financial statements and comprehensive working papers package by Friday 29 April 2015.

41. The audit fee for the 2015/16 audit of the Park Authority is £10,700. Our fee covers:

- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

42. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

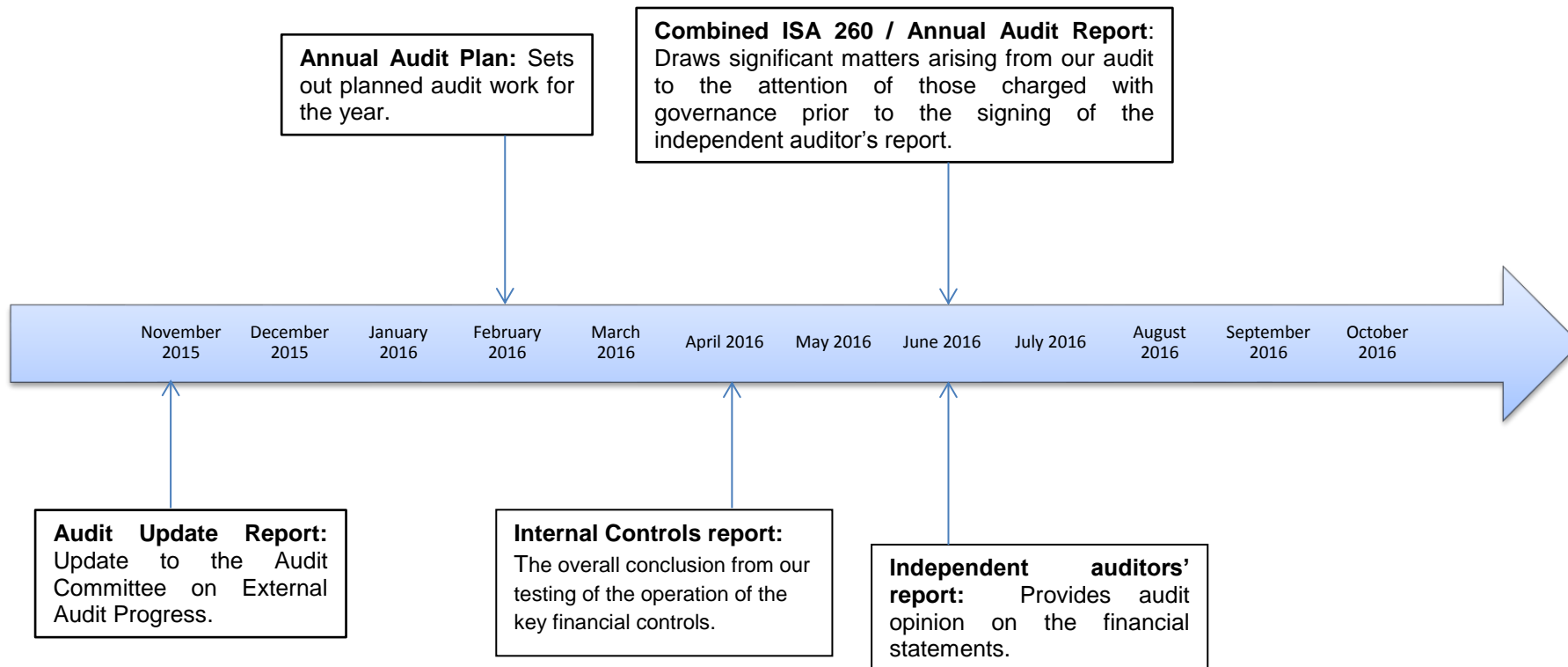
43. Asif A Haseeb, Engagement Lead, Audit Services is your appointed auditor. The local audit team will be led by Kyle McAulay, who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Asif A Haseeb MBA ACMA Engagement Lead	Asif took up his post as senior audit manager in October 2001. Before joining Audit Scotland, he was the chief auditor in a Scottish Council. Asif has over 20 years of public sector audit experience and substantial financial management and board level experience in the public sector gained through non-executive membership of various boards (currently member of Court of the University of the West of Scotland). He is also a Justice of the Peace (lay magistrate).
Kyle McAulay BA Lead Auditor	Kyle joined Audit Scotland in 2012 as a professional trainee and has worked on the audits of local government and health clients during this time.
Adrian Kolodziej MA CPFA Senior Auditor	Adrian joined Audit Scotland in 2008 as a graduate trainee and is now a fully qualified CIPFA member. He has worked on the audits of a wide range of local government, central government and health bodies. In the past two years Adrian has been involved in both financial audits and performance studies. He is currently leading on central government audits.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for the Cairngorms National Park Authority in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

	Audit Risk	Management source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Not applicable. 	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates for bias. • Evaluating significant transactions that are outside the normal course of business.
2	<p>Grant Income and Expenditure Recognition</p> <p>In 2014/15, as a result of the audit process, management agreed to adjust the accounts to derecognise £151,440 of income and £20,000 of expenditure. There is a risk that income and expenditure is incorrectly accounted for and does not comply with the relevant accounting standards and the formal grant letters in place.</p>	<ul style="list-style-type: none"> • On-going liaison with External Audit. • CNPA will review grant letters to ensure that income and expenditure is correctly recognised. 	<ul style="list-style-type: none"> • Substantively test at the financial year-end to verify that income and expenditure are correctly recognised in the financial statements. • Provide an update in the annual audit report.

	Audit Risk	Management source of assurance	Audit assurance procedure
3	<p>Other Assets</p> <p>CNPA have an asset under construction which is to be completed by the financial year-end and may be classed as a Heritage Asset. As this is an unusual transaction, there is a risk that the asset and the associated costs are not correctly accounted for.</p>	<ul style="list-style-type: none"> • Clear working papers showing the capitalised costs. • On-going liaison with External Audit. 	<ul style="list-style-type: none"> • Substantively test at the financial year-end to verify that the asset and associated costs have been correctly accounted for. • Provide an update in the annual audit report.
4	<p>Tagging of Non-Current Assets</p> <p>As a result of assets not having an asset number, there is a risk that not all assets are included in the Park Authority's accounts, or that the accounts include assets that are no longer held by CNPA.</p>	<ul style="list-style-type: none"> • CNPA is in the process of tagging its assets with a unique reference number. Tagging will be focused on, and limited to assets with an individual value above the CNPA capitalisation threshold. 	<ul style="list-style-type: none"> • Monitor progress throughout the year. • Substantively test at the financial year-end to verify the completeness of the asset register and the existence of the assets. • Provide an update in the annual audit report.
5	<p>Tomintoul & Glenlivet</p> <p>CNPA are lead partner on the Tomintoul & Glenlivet Landscape Partnership and will process all income and expenditure transactions relating to the project. As this is a new arrangement, there is a risk that the income and expenditure is incorrectly accounted for.</p>	<ul style="list-style-type: none"> • On-going liaison with External Audit. • Clear working papers showing all associated costs. • Parallel arrangement to the LEADER Local Action Group of which CNPA have 11 years experience. 	<ul style="list-style-type: none"> • Substantively test at the financial year-end to verify that income and expenditure are correctly recognised in the financial statements. • Provide an update in the annual audit report.

	Audit Risk	Management source of assurance	Audit assurance procedure
6	<p>Annual Leave Accrual</p> <p>The Park Authority did not calculate its annual leave accrual correctly as at 31 March 2015. Management have agreed to review the process for carrying out the calculation for 2015/16. There is a risk that the calculation does not provide a best estimate of the annual leave accrual for 2015/16.</p>	<ul style="list-style-type: none"> • Clear working papers showing the annual leave accrual calculation. 	<ul style="list-style-type: none"> • On-going liaison with management to ensure that the annual leave accrual is calculated correctly. • Substantively test at the financial year-end to verify that the annual leave accrual has been calculated correctly. • Provide an update in the annual audit report.
7	<p>Restructuring of Annual Report</p> <p>The 2015/16 FReM has been extensively re-written and includes significant changes to the form and content of the annual report and accounts. There is a risk that CNPA's 2015/16 financial statements will not reflect the revised FReM requirements.</p>	<ul style="list-style-type: none"> • CNPA will review the 2015/16 FReM and revise the annual report and accounts accordingly. • Management will complete the NAO Disclosure Checklist to assist with the preparation of the 2015/16 annual report and accounts. 	<ul style="list-style-type: none"> • On-going liaison with management to ensure that the unaudited financial statements are prepared in line with the FReM. • Audit of financial statements to ensure compliance with the FReM. • Provide an update in the annual audit report.