



Cairngorm National Park Authority
Review of Budgetary Control
Internal Audit 2007/08
November 2007
Strictly Private and Confidential

This report and the work connected therewith are subject to the Terms and Conditions of the engagement letter between Cairngorm National Park Authority and Deloitte & Touche LLP. The report is produced solely for the use of Cairngorm National Park Authority. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Deloitte & Touche LLP will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

Contents

		Page
Section 1	Executive Summary	1
Section 2	Detailed Findings and Recommendations	4
Section 3	Statement of Responsibility	6

Appendices

Appendix A	Expenditure approval – documentation and responsibilities	7
Appendix B	Expenditure approval – grid and flowchart	8
Appendix C	Scope and objectives	10

Section 1 - Executive Summary

1.1 Introduction

This internal audit of Budgetary Control is part of our coverage of financial areas as required in the audit plan approved by the Audit Committee. **Appendix C** shows the detailed scope and objectives of our review.

1.2 Background

The robustness of an organisations budgetary procedure is crucial to its success. The budget represents a model of the organisations' intended activity and is therefore of great significance to ensure that value for money is obtained where expenditure is incurred on behalf of the organisation. Following the setting of the budget, the key tasks are to monitor actual performance against the plan and to take appropriate and prompt action in response to any deviations from the plan.

The Cairngorm National Park Authority has established formal financial regulations and at an operational level has established a guide to budget expenditure and management. An extract from the Financial Regulations identifying the documentation and responsibilities required to commit the organisations funds can be found at **Appendix A**. An approval grid for all expenditure to be incurred by the organisation can be found at **Appendix B**, this is also an extract from the Financial Regulations. In addition the finance department undertook a process of financial control self assessment during 2006/07 at the request of internal audit. This exercise identified eight key controls relevant to financial reporting and budgetary control and Cairngorm National Park Authority determined that these were both adequate in their design and effective in their operation.

The budget is set at the beginning of each financial year, in 2007-08 Cairngorm National Park Authority has an income budget of £4,601,000; this includes a Scottish Government Resource Allocation of £4,546,000 and £55,000 of other income. The management team's quarter two budget and activity review suggests total expenditure for the year to be £4,692,000, comprising £1,718,000 for the operational plan and £2,974,000 on core expenses. In the first six months of the financial year only £377,147 of the operational budget has been spent. Cairngorm National Park Authority has to ensure that it has strong processes in place over the authorisation of expenditure and the control of budgets to ensure that it avoids a year-end deficit, whilst ensuring that it achieves value for money on all funds spent.

1.3 Approach

As Cairngorm National Park Authority has established the high level control framework described above, the overall objective of this internal audit was to assess the controls from an operational perspective to provide management with assurance that the procedures and controls in place are operating effectively.

Section 1 - Executive Summary (continued)

1.4 Overall Assessment

The following table summarises the areas of our review and our overall assessment of the control environment against each objective:

Objectives	Overall Assessment	Report Ref.
All planned activities which necessitate expenditure in excess of £5,000 are supported by an Expenditure Justification Form.	**	2.1
Expenditure Justification Forms are utilised to document the requirement for a new budget to be established to support an activity in the Operational Plan.	***	2.1
All expenditure in excess of £10,000 is approved by the Board.	****	
Expenditure is made in accordance with the CNPA Scheme of Delegation and the Table of Approval Levels as appended to the Financial regulations.	****	
All expenditure commitments are captured on appropriately authorised Expenditure Requisition Forms.	****	
Costs are coded in the financial ledger in accordance with the information recorded on Expenditure Requisition Forms.	****	
Budget Holders receive monthly Income and Expenditure reports.	***	2.2
Budget reports on all aspects of the Authority's finances are presented to the Finance Committee on a quarterly basis.	****	
All instance of budget virement or changes to approved budgets are made in accordance with the Financial Regulations.	****	

Key:

- **** Arrangements accord with good practice and are operating satisfactorily (recommendations are in respect of minor matters).
- *** Adequate arrangements are in place, but certain matters noted as requiring improvement.
- ** Arrangements in place offer scope for improvement.
- * Inadequate level of control and unacceptable level of risk.

Section 1 - Executive Summary (Continued)

1.4 Overall Assessment (continued)

Our detailed findings and recommendations are within **Section 2** of this report. In total, we identified **two** recommendations as follows:

Description	Priority	Number
Major issues that we consider need to be brought to the attention of Management and the Audit Committee	1	0
Important issues which should be addressed by management in their areas of responsibility	2	1
Minor issues where management may wish to consider our recommendations	3	1
	Total	2

1.5 Overall Conclusion

We can conclude that the controls in place in respect of the audit objectives listed above are generally operating satisfactorily; though two weaknesses have been noted. We have summarised the weaknesses and issues below and further details of our findings and recommendations can be found within **Section 2** of this report.

Our key findings are as follows:

- Planned activities on the Operational Plan which necessitate expenditure in excess of £5,000 are not always supported by an Expenditure Justification Form as required by the Financial Regulations. (*Recommendation 2.1*);
- The current budget report should be amended to include a column detailing full year budget as well as the budget to date. (*Recommendation 2.2*).

1.6 Acknowledgements

We would like to take the opportunity to thank all of the CNPA staff involved in assisting us in this audit. The findings and recommendations in this report were discussed with the Finance Manager and the Head of Corporate Services at the conclusion of our fieldwork.

To assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

- Priority One - Major issues that we consider need to be brought to the attention of management and the Audit Committee,
- Priority Two - Important issues which should be addressed by the management in their areas of responsibility,
- Priority Three - Minor issues where management may wish to consider our recommendations.

Section 2 - Detailed Findings and Recommendations

2.1 Expenditure Justification Forms

Finding	Recommendation	Rationale	
<p>A ledger print was obtained detailing all projects with a spend in excess of £5,000 at the time of testing, 21 projects in total were identified. Of the 21 projects reviewed, 9 had no Expenditure Justification Form's (EJF's) in place.</p> <p>Appendix F of the Cairngorms National Park Authority Financial Regulations states that 'An Expenditure Justification Form must be completed for all expenditure greater than £5,000.</p>	<p>Cairngorm National Park Authority should ensure that EJF's are in place for all operational projects in the 2007 operational plan.</p> <p>EJF's should be completed for projects where it is identified that the expenditure on the project is going to exceed £5,000.</p>	<p>EJF's required sign off by the Head of Group to commit to expenditure up to £25,000 and by the Chief Executive to commit to expenditure over £25,000.</p> <p>This is required to ensure that the following are considered for each project:</p> <ul style="list-style-type: none"> • Rationale and Strategic Fit • Option Analysis • Risk Assessment • Costs and Funding • Funding conditions • Deliverables/ Impact Assessment • Value for Money • Exit or Continuation Arrangements (where applicable) • To assess possible duplication of work by others/ effect of not supporting the project • Stakeholder Support 	
Management Response		Responsibility/ Deadline	Priority
<p>EJFs are used to present a business case for expenditure over £5,000 and also as a means of capturing approval for such expenditure. In practice if a business case is presented in a different format in either a Finance Committee or Board paper a separate EJF is not prepared. We will amend the Financial Regulations</p>		<p>Finance Manager March 2008</p>	<p>Two</p>

<p>to reflect this.</p> <p>Of the 9 projects without an EJV, 8 projects had alternative support and approval in the form of either Finance Committee or Board papers. The exception was expenditure on CNPA's web site support which was tendered for in the 2006-07 financial year. This was supported by a tender brief and also Scottish Executive approval.</p> <p>In previous years there has been internal discussion as to whether expenditure of this nature, being essentially Core expenditure, required an EJV but we acknowledge that an EJV should have been prepared.</p>		
---	--	--

Section 2 - Detailed Findings and Recommendations (Continued)

2.2 Monthly budget reports

Finding	Recommendation	Rationale	
<p>Five budget holders were contacted to ensure that they received monthly budget reports for their areas and that they were content with the level of detail in the report. All five confirmed that reports were received on a monthly basis:</p> <ul style="list-style-type: none"> • One of the five admitted that they would like to receive a more detailed breakdown of the cost lines in their budgets. • Two of the five stated that it would be useful for the annual budget figures to be included along with the year to date budget figures. 	<p>A more detailed monthly budget report should be developed and made available to budget holders on request. This report should give a detailed breakdown of the analysis behind the high level budget figures currently received.</p> <p>Budget reports should be amended to include the full year budget figure.</p>	<p>Providing a more detailed analysis of budget lines will allow budget holders to more easily identify the cause of any unexpected balances and allow greater analysis of costs incurred.</p> <p>Including the full year budget figure would allow budget managers to assess their current position and spent against the total resource that they have available.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>More detailed reports are always available on request – we will seek to make it clear that this is the case. Budget reports will be adapted to reflect a full year figure.</p> <p>The monthly reports given to budget holders reflect the phased budget levels taken from Action Plans prepared at the start of the year by staff.</p> <p>Both detailed budget reports and annual budget reports are currently available to staff on request. In addition, the quarterly Operational Plan reviews conducted by the Finance Manager with Heads of Group give annual budgets for each Operational Plan line since one of the key functions of this review is forward-looking to compare the expected out turn with available budget.</p>		<p>Finance Manager</p> <p>June 2008</p>	<p>Three</p>

Section 3 - Statement of Responsibility

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Deloitte & Touche LLP

Inverness

November 2007

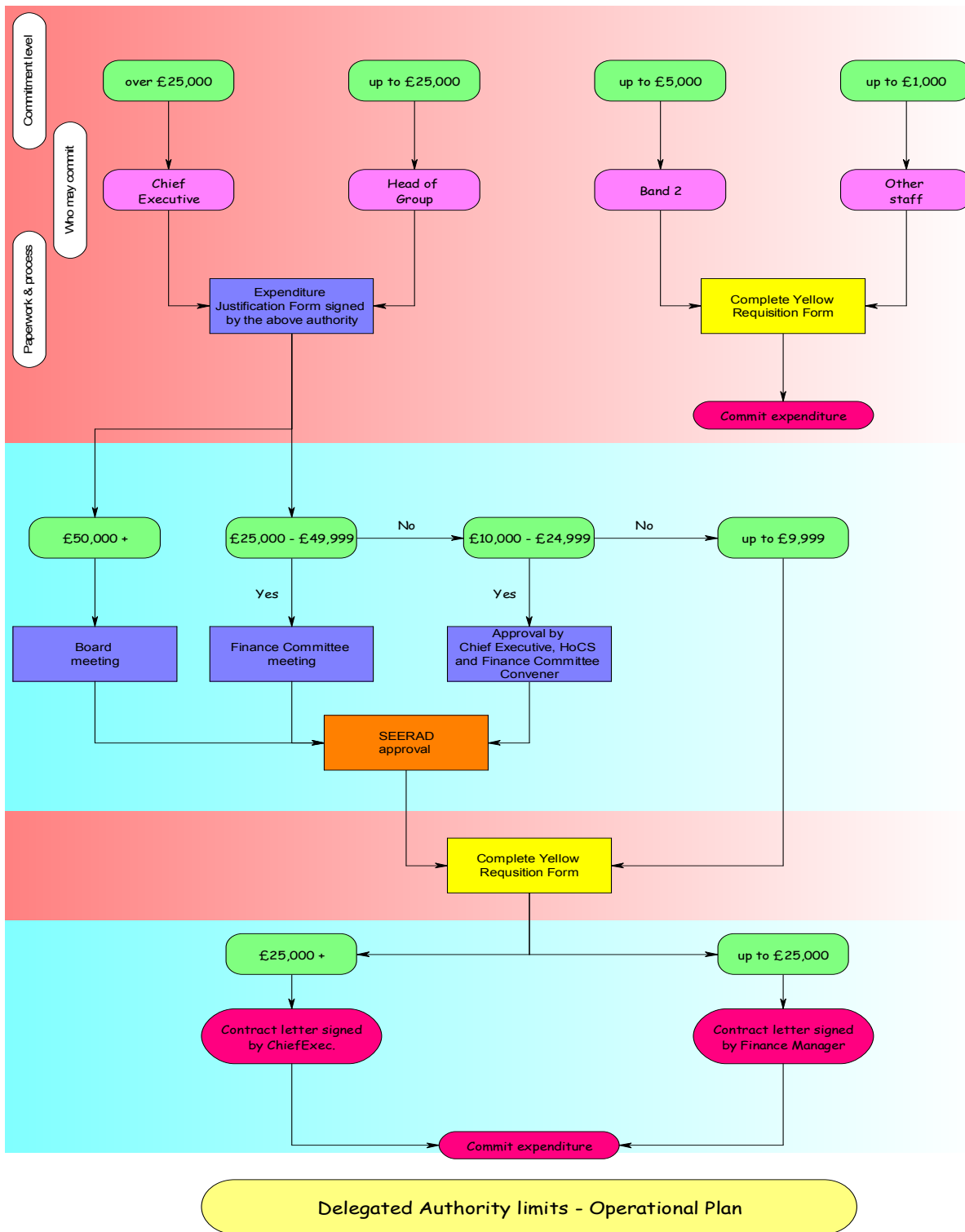
In this document references to Deloitte are references to Deloitte & Touche LLP.

Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu. Deloitte Touche Tohmatsu is a Swiss Verein (association), and, as such, neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu", or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the Deloitte Touche Tohmatsu Verein.

©2007 Deloitte & Touche LLP. All rights reserved.

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675. A list of members' names is available for inspection at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom, the firm's principal place of business and registered office.

Appendix A - Expenditure approval – extract from financial regulations

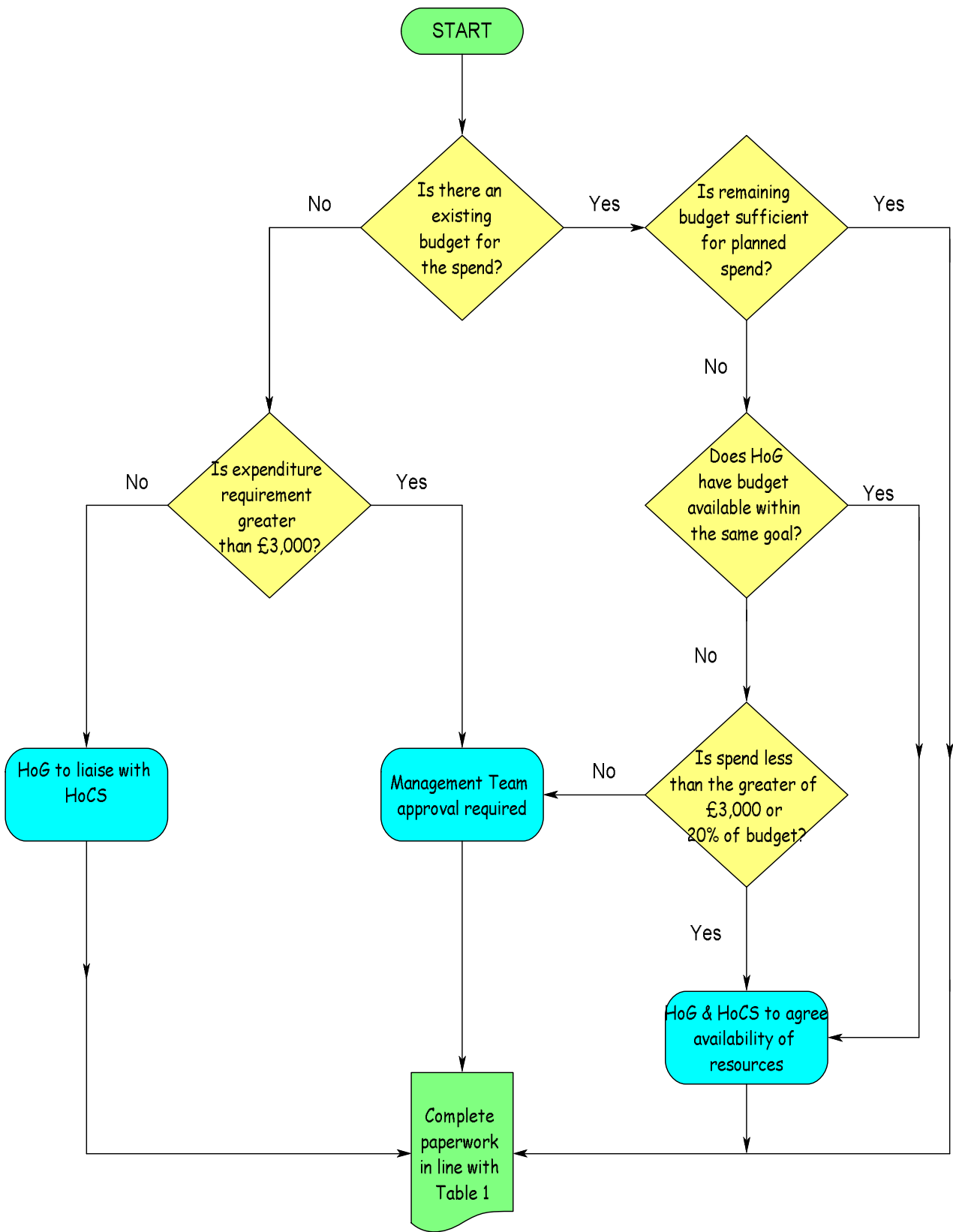


KEY

Performed by Group with responsibility for the Operational plan task

Performed by Corporate Services

Appendix B - Expenditure approval – extract from financial regulations



Appendix B (continued) - Expenditure approval – extract from financial regulations

The Table sets out who is required to authorise expenditure.

Type of expenditure	Authority levels (internal)							Authority levels (external)		
	Budget holder (below Band 2)	Budget holder (Band 2) *	Line Managers	Heads of Group	Head of Corp. Serv.	Chief Executive	Management Team	Finance Committee	CNPA Board	Scottish Executive
Goods and services inc. consultants	≤ £1,000	≤ £5,000		≤ £25,000		> £25,000	MT approval required for new Operational Plan spend not previously budgeted for in line with the preceding flowchart	≥ £10,000	≥ £50,000	≥ £10,000
Salaries (Board and employees)					All					
Expenses			Direct reporting staff	Direct reporting staff	Board	HoG				
Capital expenditure					All	> £25,000				≥ £20,000 (a)
Grants/loans	≤ £1,000	≤ £5,000		≤ £25,000		> £25,000		≥ £10,000		≥ £10,000

Key: Requisition form in all cases EJF for £5,000 and over Salary forms Salary forms

The above guidelines relate to monetary limits only and are minimum requirements. It may be advisable to obtain higher approval for sensitive areas of expenditure and, for example, EJF's can be used instead of the yellow requisition form to justify expenditure.

A yellow requisition form must be completed for all goods, services, capital expenditure and grants. However where a more detailed expenditure approval form has been completed, for example, expenditure justification form or tender these can be attached to the requisition form that only needs to have accounts information

The following types of expenditure/commitments have different authority levels and should not be entered into unless Corporate Services are aware of the expenditure and have given prior written approval:

expenditure on accomodation, lending, gifts, write-offs and losses, leases, investments, asset disposals.

- * Band 2 staff may have delegated authority at their Head of Group's discretion, the responsibility for the expenditure remains with the Head of Group
- (a) Scottish Executive approval required for all expenditure on offices/accomodation

Appendix C - Scope and objectives

The specific objectives of this internal audit were to assess whether there are adequate and effective controls in place to ensure that:

- All planned activities which necessitate expenditure in excess of £5,000 are supported by an Expenditure Justification Form;
- Expenditure Justification Forms are utilised to document the requirement for a new budget to be established to support an activity in the Operational Plan;
- All expenditure in excess of £10,000 is approved by the Board;
- Expenditure is made in accordance with the CNPA Scheme of Delegation and the table of Approval Levels as appended to the Financial Regulations;
- All expenditure commitments are captured on appropriately authorised Expenditure Requisition Forms;
- Costs are coded in the financial ledger in accordance with the information recorded on the Expenditure Requisition Forms;
- Budget holders receive monthly Income and Expenditure reports;
- Budget reports on all aspects of the Authority's finances are presented to the Finance Committee on a quarterly basis;
- All instances of budget virement or changes to approved budgets are made in accordance with the Financial Regulations.