KPMG
cutting through complexity™

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

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

Internal audit report

Financial management, planning and efficiencies

17 April 2012

Contents

This report is for:

Action
David Cameron - corporate services director (Cairngorms National Park)

David McGregor - head of finance and management information (Loch Lomond & The Trossachs National Park)

Alastair Highet, f*inance manager (Cairngorms National Park)*

Information
Audit committee

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 (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.

The contacts at KPMG in connection with this report are:

Stephen Reid
Director, KPMG LLP
Tel: 0131 527 6795
Fax: 0131 527 6666
stephen.reid@kpmg.co.uk

Brian Curran
Senior Manager, KPMG LLP
Tel: 0141 300 5631
Fax: 0141 204 1584
brian.curran@kpmg.co.uk

Alasdair Douglas
Assistant Manager, KPMG LLP
Tel: 0131 527 6771
Fax: 0131 527 6666
alasdair.douglaskpmg.co.uk

Introduction and scope

In accordance with the 2011-12 internal audit plan for Loch Lomond & The Trossachs National Park Authority ("LLTNPA") and Cairngorms National Park Authority ("CNPA" or together "the Authorities"), we have undertaken an internal audit review of financial management, planning and efficiencies. The overall objective of this audit was to consider the authorities, policies and procedures for financial management, planning and efficiencies and the extent to which they support the achievement of the strategic objectives of the Authorities.

Background

Achievement of the strategic objectives requires engagement of all staff and alignment of goals and objectives should contribute to strategic performance of the Authorities.

Financial planning

Both Authorities have formal financial planning processes for budget setting and financial planning. LLTPNA has a 'budget and financial monitoring process policy' which sets out the responsibilities and timetable for the annual budget setting process. CNPA has embedded the responsibilities for the annual budget setting process within its 'financial management framework and regulations' document. Following the Scottish Government spending review 2011, draft grant-in-aid allocations were published for 2012-13 to 2014-15. At the date of this report both Authorities are in the process of drafting budgets for 2012-13 and provisional budgets for 2013-14 and 2014-15.

The budget setting process in both Authorities is led by senior management within the finance teams, and includes input from department and project managers. This includes consideration of performance against previous budgets to identify where allocation of resources can be reduced to meet cuts in funding. There, however, is limited use of sensitivity analysis in both Authorities to support the financial planning process.

Financial monitoring

The aforementioned financial planning documents also set out the requirements and responsibilities of individuals and Authority committees and groups for monitoring in-year financial performance. Senior management and board members at both Authorities receive regular financial updates during the financial year.

Both Authorities produce management accounts on a monthly basis allowing for relevant and timely review of performance to date at both organisation and project level. This information is used to inform reports to board members with information tailored to individual groups and committees, as appropriate. For example, the LLTPNA board receives a one page summary of financial information at meetings, rather than the detailed management accounts provided to its executive team and managers. Financial updates at both Authorities include consideration of actual performance against budget with forecasts updated as necessary following changes in income or expenditure.

Introduction and background (continued)

Efficiency savings

Both Authorities have identified efficiency targets for 2012-13 in order to comply with the Scottish Governments 3% recurring efficiency savings target and these have been incorporated into annual budgets. This includes recognition of the impact of efficiency savings schemes and plans implemented in prior years. However, there is limited evidence of any new savings plans being identified by management, or organisation staff, beyond 2012-13

The Authorities continue to explore opportunities for joint working. For example, shared posts are in place for the corporate services director, information technology manager and procurement manager. The Authorities are also in the process of harmonising human resource services, such as agreement of combined human resource policies following alignment of staff working hours between LLTPNA and CPNA. However, in managements opinion, there are restrictions over what service lines and working arrangements can be combined due to the geographical distance between the Authorities and differences in the overall direct services provided by each.

Management is made aware of progress in the year against efficiency targets through summary information included in financial monitoring reports to key governance groups. However, there is scope for increased analysis to be included within CNPA updates to show progress against individual savings components.

Corporate and strategic planning

The Authorities' individual National Park plans provide the context and framework for the strategic plans. These focus on the development of the National Parks and outline how they will deliver the Scottish Governments core purpose of sustainable growth whilst maintaining natural assets. Both Authorities have now completed public consultation on their National Park plans for 2012 – 2017 with comments currently being considered in preparation for the submission to the Scottish Ministers later in 2012

The National Park plans are supported by corporate plans which are used by the Authorities to align organisational objectives with the national plan and these in turn inform more detailed annual plans, at LLTPNA the 'business plan' and CNPA the 'operational plan'. These list the individual projects that will be undertaken during the financial year to support delivery of the objectives of the corporate and National Park plans. As at March 2012, both Authorities are in the process of reviewing and finalising proposed corporate and business / operational plans for 2012-2015.

The annual plans are assigned specific budgets from the total annual grant-in-aid allocation. This may be increased through income generation activities for individual projects included within the plans. Additional income includes project contributions from delivery partners and external funding agencies and generation of these income streams is a key part of the financial operations within both National Parks. Responsibility for monitoring progress of these plans is through a mixture of project managers, steering groups and governance committees.

Areas of best practice

We have identified a number of areas of best practice in the procedures at both Authorities.

Financial monitoring

Best practice financial monitoring involves embedding a culture of responsibility for monitoring the use of resources and financial accountability for organisation performance. Both Authorities demonstrate evidence of regular review of financial performance at operational and organisational level. Examples include financial updates to board members, executive / senior management groups and project managers. Minutes of these meetings evidence routine scrutiny and challenge of financial progress at each Authority.

Alignment of strategic and financial plans

Best practice means that financial plans should be clearly aligned with strategic objectives. The next individual corporate plans for both Authorities will run from 2012-2015 to ensure alignment with the National Park plans for 2012-2017. However, the corporate plans are being restricted to three years to ensure alignment with draft budget information available from the Scottish Government for 2012-13 to 2014-15. Draft business / operational plans for the next three years to support delivery of the National Park and corporate plans are therefore, also restricted to this three year period. This is in line with best practice where budgets should reflect short, medium and long-term goals of future financial commitments. Management intends to introduce rolling three year spending plans in order to maintain a medium to long term focus within the organisation.

Best practice shows that it is important that strategic and service plans are clearly integrated and coherently communicate how an organisation intends to deliver expectations and priorities. CNPA has developed a mapping process which highlights the flow of strategic objectives to that of the operational plan. While, it is evident that the required outcomes of the National Park and corporate plans are used as a basis for annual priorities within LLTPNA, we have recommended development of a mapping process in line with that used by CNPA.

Monitoring of strategic plans

Both Authorities make use of ‘traffic light’ performance indicators to monitor progress against the corporate plans. This approach includes consideration of both financial and non-financial information. These are subject to review and discussion by senior management on a regular basis and provide an overview of the progress of annual priorities identified for the current financial year. This is in line with best practice which highlights that organisations should have focused indicators, both financial and non-financial in nature, which are clearly linked to organisation objectives.

However, our review of the monitoring report submitted to the CNPA board in January 2012 indicated that there were some inconsistencies between the ‘traffic light’ indicator awarded to project milestones and achievements. For example, one project was marked as being expected to be completed within the corporate plan timetable, but was not expected to meet the milestone for 2011-12, the final year of the current corporate plan. Our discussions with management highlighted that for some projects there is an overlap with the next planned corporate plan and, although milestones for the current year are reported as behind target, the actual achievements are expected to be completed.

Areas of best practice

There is scope to strengthen management commentary included with each achievement within the monitoring report to ensure that such inconsistencies are fully explained and understood by monitoring report users.

CPNA has also implemented key performance indicators as part of the corporate plan delivery which link to the national outcomes of the Scottish Government. These include the proportion of the National Park population covered by community outcome action plans to support national outcome *11 'We have strong, resilient communities where people take responsibility for their own actions and how they affect others'.*

Key findings and recommendations

We identified one ‘high’ graded finding, three ‘moderate’ and two ‘low’ rated findings for LLTNPA.

We identified one ‘high’ graded finding, three ‘moderate’ rated findings and one ‘low’ rated finding for CNPA.

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 majority of our findings and agreed reasonable actions to address the recommendations.

	Authority	Critical	High	Moderate	Low
Number of internal audit findings	LLTNPA	-	1	3	2
	CNPA	-	1	3	1
Number of recommendations accepted by management	LLTNPA	-	1	3	2
	CNPA	-	1	3	-

Classification of internal audit findings is provided in appendix two.

‘High’ risk recommendations highlighted to the audit committee

We have reported one ‘high’ risk recommendation from our work on this assignment:

1. The Scottish Government has yet to announce plans for efficiency savings targets for 2012-13. Financial forecasts for 2012-13 are not yet finalised and indicate a potential deficit from expenditure against the grant-in-aid allocation. This raises concern at both Authorities over their ability to incorporate any further savings without detrimental impact to operations.

KPMG

Summary of internal audit findings

Scenario analysis

Both Authorities undertook financial scenario planning as part of their analysis of forward budget positions for 2011-12 in order to provide feedback to the Scottish Government on the implications of various potential funding reduction levels.

Both Authorities have prepared draft forecasts for the three year period 2012-13 to 2014-15 covered by the Scottish Government spending review 2011. However, there is scope for improvement in the use of scenario analysis to support the reasonableness of projections for future budgets.

In June 2011 LLTPNA management has informed us that scenario analysis was considered over costs in advance of the results of the Scottish Government spending review. However, this has not been incorporated into the financial planning process for 2012-13. CNPA has undertaken limited scenario analysis over the impact of increases in payroll expenditure. However, finalisation of the running cost budget has been delayed while management focus on the operational plan and there is no evidence to show how this scenario analysis has impacted on the overall financial planning process.

Best practice shows that scenario analysis should be built into forecasting processes. This allows underlying assumptions supporting financial plans, for example inflation and pay uplifts, to be subject to effective challenge by senior management. It also assists in outlining an organisation’s ability to respond to unexpected changes in the financial environment. Recent examples include national rises in the energy and fuel costs. Both Authorities should ensure that scenario analysis is incorporated into annual forecasting arrangements for 2012-13 onwards.

Recommendation one

.

Financial forecasts 2012-13 to 2014-15

Review of financial forecasts for LLTPNA highlighted that an overall deficit is forecast for each of the coming three years. As at 31 July 2011, the LLTPNA general fund was £2.9 million. While there is sufficient reserves to cover forecast future deficits from existing general funds, there is a risk that the organisation is not financially sustainable. Management has indicated that initial budgets are normally overcommitted and then refined through analysis by senior management. As at March 2012, focus was being placed on detailed analysis of the 2012-13 financial plan and further consideration will be given to 2013-14 and 2014-15 draft budgets later in the year.

Initial forecasts for CNPA indicate a break even position or recurring surplus for 2012-13 to 2014-15, based on two draft scenario plans. However, management is currently reviewing resources required for the operational plan, with requested funding from project managers currently in excess of the net operational plan spend in draft forecasts. This includes consideration of the staffing requirements for each project which will impact the overall staff expenditure recognised within the CNPA running costs budget. As a result, the final financial budget for 2012-13 for the Authority is unlikely to be finalised until around May 2012. There is a risk that the operational budget is overcommitted resulting in a deficit against grant-in-aid allocations for 2012-13 to 2014-15.

The Scottish Government has yet to announce plans for efficiency savings targets for 2012-13. The current position of financial planning raises concern within both Authorities over their ability to incorporate any further savings without detrimental impact to operations. It is important that forecasts for 2012-13 are finalised as soon as possible in order to assess both Authorities capability to incorporate any further required savings into financial plans.

Recommendation two

.

Summary of internal audit findings (continued)

Monitoring of revenue and capital expenditure

The LLTNPA management accounts provide an analysis of expenditure against grant-in-aid income for the year. The Scottish Government has informed LLTNPA of its intention to issue a revised grant-in-aid letter for 2012-13 which will indicate monthly monitoring requirements expected from the Authority in relation to capital and revenue expenditure. Existing financial reporting procedures will therefore require amendment to ensure such detail is available. Analysis of capital expenditure as a separate component would also provide a basis for monitoring progress of capital projects supporting the National Park plan.

Recommendation three

No analysis of expenditure to date against capital and revenue allocations is carried out by CPNA due to the low level of capital funding. (draft capital allocations for 2012-13 to 2014-15 represent less than 1% of total grant-in-aid). Management do not anticipate that the Scottish Government will require the Authority to provide monitoring information at the same level of detail as LLTNPA.

Identification and sustainability of efficiency savings

The Scottish Government required both Authorities to recognise cumulative recurring efficiency savings over the three year period 2008-2011 and has set an additional in year target of 3% for 2011-12.

Our discussions with management at both Authorities highlighted that the majority of savings targets for 2012-13 are the continued impact of efficiency schemes introduced from 2008-2011, for example, property cost reduction initiatives introduced in LLTPNA and staff cost reduction initiatives introduced in CPNA. Other savings for 2012-13 relate to individual expenditure lines where management deem there is sufficient headroom to reduce budgets without having a detrimental effect on operations. However, management at both Authorities has highlighted that there are concerns over their ability to introduce further cost reductions without impacting overall operations and as a result no further long-term efficiency plans have been identified. Management are exploring options for further shared working between the Authorities to identify additional savings and note that these will require buy in from department and project managers.

Best practice suggests that an appetite for achieving efficiencies should be integrated across an organisation. This should include identification of potential savings and efficiency targets by project and department mangers in order to provide input to efficiency targets set for each financial year. This may also assist in indentifying responsible officers for monitoring progress against efficiency plans to ensure that savings are achieved and any issues are identified and responded to in a timely manner.

Recommendation four

Summary of internal audit findings (continued)

Setting efficiency savings targets

Our review of efficiency savings for LLTPNA noted that the forecast spend for 2011-12,used to calculate efficiency targets at the start of the financial year, was not in line with the Authority's approved budget. While progress to date has been based correctly on actual costs incurred, there is a risk that efficiency targets are not correctly aligned to agreed budgets.

Recommendation five

Reporting progress against efficiency savings targets

LLTPNA prepares a quarterly update which shows progress against each expenditure category for which an efficiency target has been identified.

The CNPA finance committee receives a regular update on progress of efficiency savings for the current year. However, this is high level and does not indicate the progress of individual savings plans. It is important that these are reviewed in sufficient detail to ensure that all identified plans are being achieved in line with target expectations. For example, the finance committee update for January 2012 shows a forecast £43,000 overspend against running costs. Of this £16,000 and £15,000 relates to training expenditure and travel and pool car expenditure, respectively. These two expenditure areas represent 28% of the efficiency targets deducted from the annual budget at the start of 2011-12. This indicates that the savings identified for these areas are not sustainable and action is required to identify other efficiency savings in order to meet the 2011-12 target and ensure recurring savings are brought forward to later years.

Recommendation six

Linkage of National Park, corporate and business / operational plans

As part of the National Park plan development process CNPA has developed a mapping document which shows the linkage between the priorities of the National Park plan and the corporate and operational plans which will assist its delivery. To evidence the effectiveness of the corporate plan in supporting the LLPTNA National Park plan it would be useful to develop a similar map to clarify how each area of the corporate and business plan will support delivery of the National Park plan.

Recommendation seven

Business / operational plan monitoring

LLTPNA has implemented performance indicators to track overall progress of projects outlined in the Authority's business plan and to indicate whether projects are on track financially and whether there are any identified major risks to planned outcomes. The 'traffic light' monitoring report also includes commentary on the overall progress of individual projects and their link to the corporate plan.

Financial reports submitted to the CPNA finance committee include detail of the expenditure incurred to date for each project of the operational plan, against its annual budget, together with detail of contractually committed expenditure for the current year. Review of the last financial report covering the financial period to January 2012 highlighted projects where total expected expenditure is in excess of the approved budget. However, no commentary on the overall progress of the project or the impact of forecast overspends is included as part of the analysis. To ensure senior management are aware of any issues with ongoing projects it would be beneficial to introduce performance indicators for each project in line with the procedures used by LLTPNA.

Recommendation eight

Action plan - LLTNPA

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Scenario analysis		**Moderate**
Both Authorities have prepared draft forecasts for the three year period 2012-13 to 2014-15 covered by the Scottish Government spending review 2011. However, there is limited use of scenario analysis to support the reasonableness of projections for future budgets. There is a risk that without consideration of scenario analysis during financial planning Authorities are unable to respond to unexpected changes in the financial environment.	Management should ensure that scenario analysis is incorporated into annual forecasting arrangements for 2012-13 onwards.	More prominence is to be given in reporting of scenario analysis on future financial forecasts and highlighting financial orientated risks around delivery plans. **Responsible officers:** finance managers **Implementation date:** August 2012 onwards
2 Financial forecasts 2012-13 to 2014-15		**High**
Financial forecasts for LLTNPA, for 2012-13 to 2014-15, reflect overall deficits for each of the coming three years as a result of routine over-commitment of budgets. As at March 2012 management are in the process of reviewing the final budget for 2012-13 and will undertake detailed review of 2013-14 and 2014-15 budgets over the next twelve months. The Scottish Government has yet to announce plans for efficiency savings targets for 2012-13 and the current position of financial forecasts raises concern within LLTPNA over its ability to incorporate any further savings without detrimental impact to operations.	Management should ensure that forecasts for 2012-13 are finalised as soon as possible in order to assess LLTPNA's capability to incorporate any further required savings into financial plans.	Following issue of the draft internal audit report, the board approved the financial forecast at its meeting in March 2012. Therefore this recommendation has already been implemented. **Responsible officer:** not applicable **Implementation date:** not applicable

Action plan – LLTNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
3 Monitoring of revenue and capital expenditure		**Moderate**
LLTNPA management accounts provide analysis of expenditure against total grant-in-aid for the year, but do not provide a split between revenue and capital. The Scottish Government will require monthly monitoring of capital and revenue expenditure by the Authority for 2012-13. There is a risk that LLTNPA is unable to respond to any requirements to monitor capital expenditure as a result of current financial reporting formats.	Management should update financial monitoring reports to include differentiation of revenue and capital expenditure against respective allocations.	Management account reports will be adjusted to reflect increased level of capital finance under management. **Responsible officer:** finance manager **Implementation date:** 31 July 2012

Action plan – LLTNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
4 Identification and sustainability of efficiency savings		**Moderate**
For 2011-12 the Scottish Government has set an in year target of 3% of grant-in-aid for recurring efficiencies. Management at both Authorities has highlighted that there are concerns over the ability to introduce any cost reductions without impacting overall operations and as a result no further long-term efficiency plans have been identified. There is a risk that without early consideration of future potential efficiency plans that the Authorities are unable to respond to any further cuts in grant-in-aid by the Scottish Government.	Management should continue to explore potential shared service arrangements between the Authorities. A full review should be undertaken of current expenditure streams with organisation staff to identify future efficiency programmes . All staff should encouraged to provide input to this process in order to communicate the importance of identifying recurring savings and promote a savings appetite within the Authority.	The development of shared service arrangements is ongoing between the Authorities and with other appropriate partner organisations. This will continue to be a focus for the identification and delivery of financial efficiencies. A wider review of other potential efficiencies will be undertaken through 2012 and will focus on accommodating any specific efficiency action plans required of the Authorities by the Scottish Government. **Responsible officer:** director of corporate services **Implementation date:** 31 October 2012
5 Setting efficiency savings targets		**Low**
Our review of efficiency savings for LLTPNA noted that the forecast spend for 2011-12 used to calculated efficiency targets at the start of the financial year was not in line with the Authority's approved budget. Whilst progress to date has been based, correctly, on actual costs incurred there is a risk that efficiency targets are not correctly aligned to agreed budgets.	Management should ensure that efficiency targets are based on final approved budgets to ensure accurate monitoring of progress during the financial year.	The budget approved by the board in March 2012 will form the basis for progress monitoring throughout 2012. **Responsible officer:** finance manager **Implementation date:** continuous from April 2012

Action plan – LLTNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
7* Linkage of National Park, corporate and business/operational plans		**Low**
Review of the LLTPNA corporate plan indicated that there does not appear to be clear linkage of the identified objectives of the corporate plan with the outcomes set out in the National Park plan. There is a risk that the priorities of the corporate plan do not clearly support achievement of the National Park plan priorities.	Management should develop a mapping document similar to that implemented by CNPA to demonstrate linkage between the priorities of the National Park, corporate, and operational plans.	As at date of this report, a finance and performance manager is being recruited. Overall organisational performance monitoring systems will be a key responsibility for this new officer. **Responsible officer:** finance and performance manager **Implementation date:** 31 October 2012

*Note that recommendations 6 and 8 relate only to CNPA.

Action plan – CNPA

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Scenario analysis		**Moderate**
Both Authorities have prepared draft forecasts for the three year period 2012-13 to 2014-15 covered by the Scottish Government spending review 2011. However, there is limited use of scenario analysis to support the reasonableness of projections for future budgets. There is a risk that without consideration of scenario analysis during financial planning Authorities are unable to respond to unexpected changes in the financial environment.	Management should ensure that scenario analysis is incorporated into annual forecasting arrangements for 2012-13 onwards.	More prominence is to be given in reporting of scenario analysis on future financial forecasts and highlighting financial orientated risks around delivery plans. **Responsible officers:** finance managers **Implementation date:** continuous from August 2012

Action plan – CNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2 Financial forecasts 2012-13 to 2014-15		**High**
Financial forecasts for CNPA, for 2012-13 to 2014-15, reflect overall deficits for each of the coming three years as a result of routine over-commitment of budgets. As at March 2012 management are in the process of reviewing the final budget for 2012-13 and will undertake detailed review of 2013-14 and 2014-15 budgets over the next twelve months. The Scottish Government has yet to announce plans for efficiency savings targets for 2012-13 and the current position of financial forecasts raises concern within CNPA over its ability to incorporate any further savings without detrimental impact to operations.	Management should ensure that forecasts for 2012-13 are finalised as soon as possible in order to assess CNPA's capability to incorporate any further required savings into financial plans.	Management has reviewed financial allocations and is making final adjustments over the course of April 2012. Management aims to submit the corporate plan and associated financial allocations for 2012-13 to the board for approval in May 2012. **Responsible officer:** director of corporate services **Implementation date:** 31 May 2012

Action plan – CNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
4* Identification and sustainability of efficiency savings		**Moderate**
For 2011-12 the Scottish Government has set an in year target of 3% of grant-in-aid for recurring efficiencies. Management at both Authorities has highlighted that there are concerns over the ability to introduce any cost reductions without impacting overall operations and as a result no further long-term efficiency plans have been identified. There is a risk that without early consideration of future potential efficiency plans that the Authorities are unable to respond to any further cuts in grant-in-aid by the Scottish Government.	Management should continue to explore potential shared service arrangements between the Authorities. A full review should be undertaken of current expenditure streams with organisation staff to identify future efficiency programmes . All staff should encouraged to provide input to this process in order to communicate the importance of identifying recurring savings and promote a savings appetite within the Authority.	The development of shared service arrangements is ongoing between the Authorities and with other appropriate partner organisations. This will continue to be a focus for the identification and delivery of financial efficiencies. A wider review of other potential efficiencies will be undertaken through 2012 and will focus on accommodating any specific efficiency action plans required of the Authorities by the Scottish Government. **Responsible officer:** director of corporate services **Implementation date:** 31 October 2012

*Note that recommendations 3,5 and 7 relate only to LLTNPA.

Action plan – CNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
6 Reporting progress against efficiency savings		**Moderate**
The CNPA finance committee receives a regular update on progress of efficiency savings for the current year. However, this is high level and does not indicate the progress of individual savings plans. Review of finance committee papers highlighted that the forecast deficit for 2012-13 included overspend against two components of the 2012-13 total efficiency target. This indicates that savings identified for these areas are not sustainable and there is a risk that appropriate action is not taken to identify other savings to compensate, resulting in CNPA failing to meet is required efficiency target.	LLTPNA prepares a quarterly update which shows progress against each expenditure category for which an efficiency target has been identified. Management should report progress against efficiency targets for the year in a similar format. This should ensure that issues are detected in a timely manner.	Management reports on each efficiency plan at a high level and delivery of efficiency plans will be reported on at a more specific level, drawing out analysis of performance against each efficiency target area. **Responsible officer:** finance manager **Implementation date:** continuous from April 2012

Action plan – CNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
8 Business / operational plan monitoring		**Low**
Financial reports submitted to the CPNA finance committee include detail of the expenditure incurred to date for each project of the operational plan against its annual budget together with detail of contractually committed expenditure the current year. However, no commentary on the overall progress of the project or the impact of forecast overspends is included as part of the analysis. There is a risk that management are not made aware of any significant issues impacting achievement of operational plan projects and are unable to respond in a timely manner.	LLTPNA has implemented 'traffic light' performance indicators to track the overall progress of projects outlined in the authority's business plan. These are used to indicate whether projects are on track financially and whether there is any identified major risks to planned outcomes. The 'traffic light' monitoring report also includes commentary on the overall progress of individual projects and their link to the corporate plan. Management should consider the implementation of key performance indicators to monitor progress of the CNPA operational plan.	The CNPA corporate plan monitoring report is itself a report on the effectiveness of the current year's operational plan delivery and follows on from the expenditure focused report to the finance committee. In previous years management has taken the decision not to produce a detailed, project by project, operational plan report and to leave responsibility for project monitoring and evaluation to project mangers. This allows for more focused effort on the overall contribution to and delivery of the corporate plan. These systems are likely to evolve further through the CNPA operational management group, following management restructure from early April 2012. As a result no further action is deemed required by management. **Responsible officer:** not applicable **Implementation date:** not applicable

Appendices

Objective, scope and approach

In accordance with the 2011-12 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 Financial Management, Planning and Efficiencies.

Objective

Achievement of the strategic plans requires the engagement by all staff and alignment of goals and objectives should contribute to strategic performance of the Authorities.

The overall objective of this audit is to consider the Authorities policies and procedures in place for Financial management, planning and efficiencies and the extent to which they support achievement of these outcomes.

Scope

This joint review will consider, and compare the extent to which:

- financial management arrangements are sufficiently developed to respond to changes in the external financial environment;
- corporate and strategic aims and objectives are being achieved:
- proactive financial planning; and
- efficiency saving are being achieved on a reoccurring basis and the demonstration of these by management;

Approach

We will adopt the following approach in this review:

- project planning and scoping;
- assess the financial governance and leadership, including challenge and capacity;
- assess financial and operational planning, including the degree to which the two are linked and scenario planning is undertaken;
- investigate finance for decision-making, including the robustness of base data;
- review the extent to which recurring efficiency savings, rather than cost cutting, schemes are demonstrable and sustainable; and
- agreeing findings and recommendations with management.

Classification of internal audit findings

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.	• Potential financial impact of more than 1%* of total expenditure. • 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. • Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers. • Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty. • Life threatening.	• Requires immediate notification to the Authority's audit 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 Authority's audit 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.	• Potential financial impact of 0.5% to 1%* of total expenditure. • Major impact on operations or functions. • Serious diminution in brand value. • Probable decrease in the public's confidence in the Authority. • Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers. • Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty. • Extensive injuries.	• 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.

* Materiality is quantified on page 25.

Classification of internal audit findings (continued)

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.	• Potential financial impact of 0.1% to 0.5%* of total expenditure. • Moderate impact on operations or functions. • Brand value 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 stakeholders and customers. • Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty. • Medical treatment required.	• 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.	• Potential financial impact of less than 0.1%* of total expenditure. • Minor impact on internal business only. • Minor potential impact on brand value. • Should not decrease the public's confidence in the Authority. • Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers. • Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty. • First aid treatment.	• 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.

* Materiality is quantified on page 25.

Classification of internal audit findings (continued)

The definitions of the materiality used to classify the impact of our findings are detailed below and are based on the 2009-10 financial statements.

Rating	Definition	Loch Lomond & The Trossachs National Park Authority	Cairngorms National Park Authority
Critical	Potential financial impact of more than 1% of total expenditure	Greater than £80,000	Greater than £50,000
High	Potential financial impact of 0.5% to 1% of total expenditure	Between £40,000 and £80,000	Between £25,000 and £50,000
Moderate	Potential financial impact of 0.1% to 0.5% of total expenditure	Between £8,000 and £40,000	Between £5,000 and £25,000
Low	Potential financial impact of less than 0.1% of total expenditure	Less than £8,000	Less than £5,000

cutting through complexity™