

Appendix C

Cairngorms National Park Authority

Proposed annual report on the 2013/14 audit



Prepared for Members of Cairngorms National Park Authority and the Auditor General for Scotland
27 June 2014

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.

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Key messages

2013/14

We have given an unqualified opinion that the financial statements of Cairngorms National Park Authority (the Park Authority or CNPA) for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The 2013/14 financial statements show a deficit of £0.097 million (2012/13 - £0.065 million surplus). This is the difference between the total funding received of £6.850 million (£6.026 million grant-in-aid and £0.824 million operational plan income) and £6.947 million total expenditure. After excluding grant-in-aid transferred for depreciation of £0.099 million, the financial result for 2013/14 is a surplus of £0.002 million.

Overall the Park Authority's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our review of the key controls within the main financial systems, we concluded that the systems of internal control are operating effectively.

Outlook

We confirm the financial sustainability of the Park Authority on the basis of its financial position. The financial position going forward is becoming more challenging than previous years with limited increases in funding coupled with increasing cost pressures. This represents a major issue for the Park Authority and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage. The significant financial challenges will make maintaining or improving on the performance targets set by the Scottish Government even more difficult.

Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of the Park Authority. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management. However this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Park Authority and no responsibility to any third party is accepted.
3. Appendix 1 is an action plan setting out the high level risks we have identified from the audit. Management have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Park Authority understands its risks and has arrangements in place to manage these risks. Board Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report will be published on our website after consideration by the Board and after the financial statements have been laid before parliament.
5. The management of the Park Authority is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 7th March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and, as we did not require to carry out any additional work outwith our planned audit activity, this fee remains unchanged.

Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of the Park Authority for 2013/14 give a true and fair view of the state of the Park Authority's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 27 June 2014.
9. We received the unaudited financial statements on 1 May 2014, one day ahead of the agreed timetable. The working papers were of a high standard and officers provided excellent support to the audit team which enabled us to complete our on-site fieldwork by the planned target date of 9 May 2014. However, the unaudited financial statements did not contain the pension disclosures for executive directors within the remuneration report. This information is provided by a third party and was received on 2 June 2014.
10. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. There were no unadjusted monetary errors identified during the course of the audit.
11. The most significant finding from our audit of the financial statements was outlined in our International Standard in Auditing (ISA) 260 report. Non-current assets within the fixed asset register do not have asset numbers allocated to them and the physical assets do not have asset tags attached therefore we were unable to confirm existence of non-current assets and completeness of the fixed asset register. There is a risk that non-current assets are materially misstated as without assets tags the Park Authority has no means of checking whether all assets owned by them are included in the asset register and whether all assets included in the asset register exist.

Action point 1

12. CNPA is required to follow the 2013/14 FReM and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Financial position

2013/14 Outturn

13. The main financial objective for CNPA is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
14. The Park Authority operated within the resource budgets for 2013/14, with a £0.021 million increase in allocation for depreciation being approved in a revised budget, as detailed in Table 1.

Table 1: Resource Budget

	Final Allocation (£m)	Actual Outturn (£m)	Under / (Over) spend
Resource DEL	4.533	4.533	0.000
Depreciation	0.099	0.097	0.002
Capital	1.493	1.493	0.000
Total	6.125	6.123	0.002

Source: Cairngorms National Park Authority 2013/14 Report and Accounts

2013/14 Financial position

15. CNPA's gross expenditure for 2013/14 was £6.947 million (2012/13 - £7.072 million). The most significant elements were operational plan expenditure of £3.684 million, of which £0.974 million was spent on the "Brand and visitor experience" segment and £0.960 million was spent on the "Opportunities for recreation" segment, board members and staff costs of £2.480 million and other operating costs of £0.686 million.
16. On an income and expenditure basis, the financial statements show a deficit of £0.097 million (2012/13 - £0.065 surplus). This is the difference between the total funding received of £6.850 million (£6.026 million grant-in-aid and £0.824 million operational plan income) and £6.947 million total expenditure. After excluding grant-in-aid transferred for depreciation of £0.099 million, the financial result for 2013/14 is a surplus of £0.002 million.
17. In our Annual Audit Plan we highlighted the risk that the Park Authority might not be able to spend the additional capital funding received as part of the grant-in-aid allocation for 2013/14 (£1.493 million) before 31 March 2014. However, there has been no slippage in the "shovel ready" capital programme and the Park Authority delivered the programme using the whole allocated budget.
18. As at 31 March 2014, the Park Authority's Statement of Financial Position shows a decrease in total equity of £0.097 million. This can be attributed to the various movements in the assets and liabilities, none of which are particularly significant.

Financial planning

19. CNPA has a one year operational and budget plan, providing an indicative budget for 2014/15 based on relatively stable grant-in-aid provision set within the context of a further forward year outline budget agreed within the 2012 to 2015 Corporate Plan.
20. The arrangements for budget setting and monitoring in place at the Park Authority are sound, with management closely monitoring income and expenditure against budget and reporting financial results four monthly to the Finance Committee.
21. The 2014/15 revenue budget was approved by the Board at its meeting in 21 March 2014. The budget has been prepared on the assumption of Grant in Aid resource allocation funding for 2014/15 allocated to the Park Authority by the Scottish Government being £4.44 million, a small decrease from 2013/14 (£0.093 million - 2%). Income from planning fees and charges, commercial and merchandising activity and LEADER admin grant has been budgeted at £0.25 million. This brings total budgeted income for 2014/15 to £4.69 million.
22. The Park Authority predicts total income is likely to be higher due to financial contributions from partners. However, this income would be linked to specific projects and therefore discretionary income for budget allocation to core and operational plan activities remains £4.69 million. This has been split £3.698 million (73%) to finance the core expenditure and £1.33 million (27%) to finance the operational plan. This presents a planned deficit of £0.338 million. As in previous years, the budget deficit includes a degree of over programming to allow for any slippages in project development and delivery and to ensure that a bank of projects was ready should additional funding become available during the financial year.
23. The main area where the budget has increased significantly (by £0.442 million) is staff costs. This is primarily the full year effect of the recruitment which took place over the course of 2013/14 in finalising the revised organisational structure. The new structure reduced the number of directors from 4 to 3 and reduced the number of heads of service from 9 to 7. However, the number of staff below this level has increased, with the estimated headcount figure for 2014 reaching 64 (60 in 2013). We have been advised that the increase in staff numbers was to invest staff time in internal system improvements, in delivery of the improvements identified in the Authority's Best Value action plan, staff time to support and deliver Planning Service Improvement Plans and staff resource for major project initiatives.
24. There is no additional capital allocation for 2014/15. CNPA has benefited from additional capital allocations in each of the last three financial years, totalling around £3.5 million over this period. The Park Authority is in the early stages of developing a longer term capital investment plan, with the first stage being approved by the Board in March 2014.
25. The Park Authority currently has detailed financial plans in place for 2014/15. Going forward, no formal and detailed budget plans have been established beyond this period. However, 'core' budgets have been established in terms of accommodation, running costs and ongoing staffing, with a two year pay award agreed. We have been advised that the Board are providing guidance on managing vacancies, efficiencies and operational plan commitments to deliver as much financial flexibility as possible before the next National Park Partnership Plan

period commences in 2017. The Park Authority should continue to plan for the longer term and develop detailed plans to support this.

Action point 2

26. 2014/15 is the last year of the Park Authority's Corporate Plan 2012-2015. Plans are currently underway for the development of the new Corporate Plan. The Board have had meetings and are developing the priorities for the next plan.

Coding Structure

27. In 2013/14 and prior years the Park Authority has operated its financial ledger system with two trial balances and therefore two separate coding structures, one for core activity and one for project activity. For 2014/15, the Finance Manager has reviewed this approach, closing off these two structures and setting up one overarching coding structure for the organisation which is fit for purpose. The main aim for this change is to simplify and streamline processes. The Park Authority should evaluate the position before the financial year end and ensure the financial information provided as a result of the new coding structure is complete and is meeting business need.

Action point 3

CNPA premises

28. During 2013/14 the Park Authority made the decision to move planning staff from the office in Ballater to its headquarters in Grantown-on-Spey. Staff were offered an early release scheme (as approved by the Scottish Government) or relocation costs. So far two members of staff have accepted the relocation package, four staff have taken up alternative posts which remain based in Ballater and, at the date of writing this report, the remaining staff continue to consider their options of voluntary severance (early retirement if appropriate or if they are eligible) or relocation. In the 2013/14 financial statements, a provision of £0.016 million was included for the agreed relocation costs and a contingent liability has been disclosed for the remaining staff members.
29. In addition, the Park Authority is currently assessing its accommodation options in Grantown. The lease on the current offices has been extended for 5 years from 1 April 2013 to 31 March 2018 to provide security of tenure during the options appraisal process. The Park Authority is looking at two options. The first is for an extension to be added to the current offices, which has been agreed in principle with the landlord. The alternative is to build new offices which would be leased to the Park Authority. At the time of writing of this report, the options appraisal and preparation of the business case are ongoing. In the meantime, the Park Authority has capitalised the cost of alterations to power supply and the car park area to allow the use of temporary office accommodation.

Corporate governance, systems of internal control and use of resources

Overall governance arrangements

30. The three fundamental principles of corporate governance- openness, integrity and accountability- apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
31. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Park Authority had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance.

Processes and committees

32. The CNPA Board currently has 19 members including the Convenor. It comprises those who are appointed by Scottish Ministers and those nominated to the Board by the five councils in the park area.
33. A number of committees are in operation and meet regularly throughout the year, namely the Audit committee, Finance and Delivery committee, Staffing & Recruitment committee and Planning committee.
34. The Audit Committee has the direct responsibility for overseeing the Park Authority's arrangements for corporate governance and provides the Accountable Officer with assurance as to the Park Authority's compliance. The committee considers all internal and external audit reports and ensures any issues raised are addressed.

Accounting and internal control systems

35. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
36. During 2013/14 we carried out a review of the main financial systems (general ledger, trade payables, cash income and banking and payroll), focusing on the key controls in place within each system.
37. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial

statements. We reported in our key controls report in April 2014 that the CNPA's internal controls for the systems tested operated effectively and this allowed us to take planned assurance on these systems for the audit of the 2013/14 financial statements. We identified a small number of minor issues which management agreed to rectify.

38. Internal audit is an important element of the Park Authority's governance structure. Every year we carry out an assessment of the adequacy of the internal audit function to identify those areas of internal audit work on which we can place reliance. The internal audit service is provided by KPMG and we concluded that they had appropriate standards and reporting procedures.
39. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including aspects of the general ledger system and cash and cash equivalents system.
40. We were able to place reliance on their work in terms of paragraph 28 of Audit Scotland's Code of Audit Practice, which addresses the wider scope of public audit areas, in the following:
 - EU funding applications (LEADER funding)
 - regulatory compliance
 - financial management, planning & efficiencies

This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

Prevention and detection of fraud and irregularity

41. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Standards of conduct and arrangements for the prevention and detection of corruption

42. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

LEADER

43. 2013/14 was the final year in the last LEADER programme. All projects are currently being brought to a close with final claims expected by September 2014 for the current programme. 2014/15 is an interim year before the next programme commences. The National Park has been approved as a LEADER area for the 2014 to 2020 programme and has submitted a draft Local Development Strategy (LDS). The LEADER team, along with the Local Action Group's

working group, is also making progress with reviewing this for the feedback received from the Scottish Government and the development of the LEADER investment business plan to support the LDS. Management should continue with forward planning to ensure it is well placed for the new LEADER programme.

Shared services

44. CNPA continues to work with Loch Lomond and the Trossachs National Park Authority on progressing shared services. The two park authorities currently work together on procurement, IT services, Geographic Information Systems (GIS) and health and safety. The Internal Audit function is provided by KPMG (LLP) to both Park Authorities. The Corporate Services Director role was previously shared between the two organisations. This came to an end in early 2013/14, with a Director now in position at each authority. In addition, the shared Internal Audit contract is coming to an end, with the possibility of extending it for another year. The Park Authorities hold regular meetings to monitor progress and to discuss options for shared services going forward. CNPA should ensure that where appropriate and effective, shared services are considered for service delivery.

Acknowledgements

45. We would like to express our thanks to the staff and Members of the Park Authority for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix 1: Action plan

Key risk areas and planned management action

Action Point	Refer Para No	Issue	Planned Management Action	Responsible Officer	Target Date
1	11	<p>Asset Register</p> <p>Assets within the fixed asset register do not have asset numbers allocated to them and the physical assets do not have asset tags attached. There is a risk that non-current assets are materially misstated as, without assets tags, the Park Authority has no means of checking whether all assets owned by them are included in the asset register and whether all assets included in the asset register exist.</p>	<p>We will allocate discrete references to assets in the register and tag appropriately. All tangible assets bought post 31 March 2014 will be tagged and matched to the fixed asset register. Where possible assets bought in previous accounting periods will be linked into the fixed asset register.</p>	Finance manager	October 2014
2	25	<p>Financial Planning</p> <p>The Park Authority currently has financial plans in place for 2014/15 and 'core' budgets in place for staff, accommodation and running costs. However, there are no detailed financial plans prepared beyond this period. The Park Authority should continue to plan for the longer term.</p>	<p>As set out in this report, we have commenced work with the Board on our new Corporate Plan and will continue to evolve longer term budgets over the course of the year.</p>	Corporate Services Director	March 2015 (and ongoing)

Action Point	Refer Para No	Issue	Planned Management Action	Responsible Officer	Target Date
3	27	<p>Coding restructure</p> <p>The coding structure within the financial ledger has been reviewed to create a single set of codes, replacing the two separate structures used previously.</p> <p>The Park Authority should evaluate the position before the end of March 2015 and ensure the financial information provided as a result of the new coding structure is complete and is meeting business need.</p>	<p>The evaluation of the new codes has already been started, and will be further refined during the year. Management information (MI) was prepared from the single tier trial balance in April. Further enhancements will be made to speed up the MI preparation in the level and depth of analysis provided to Management Team, Heads of Service (HoS) and Finance and Delivery Committee. Intention is for HoS to sign off on new information streams as fit for purpose by August.</p>	Finance Manager	August 2014