



# **Cairngorms National Park Authority**

## **Annual Audit Plan 2014/15**

**Prepared for Cairngorms National Park Authority**

**January 2015**

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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.

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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 2014/15. 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 ("the Code") as approved by the Auditor General for Scotland
  - issues brought forward from previous audit reports.

## Summary of planned audit activity

3. Our planned audit work in 2014/15 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
    - the expenditure and income for the year were incurred or applied in accordance with applicable enactments 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 and assessment of the Park Authority's governance and performance arrangements in a number of key areas including the Governance Statement and review of adequacy of internal audit.

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# Responsibilities

4. The audit of the financial statements does not relieve the Accountable Officer, management or the Audit 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 issued 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 2015 and its expenditure and income for the year then ended
- preparing an annual report, including management commentary, strategic report and remuneration report.

## Format of the accounts

8. The financial statements should be prepared in accordance with the 2014/15 Government Financial Reporting Manual (FReM) and Accounts Directions signed by Scottish Ministers. The FReM sets out the principles applicable to the accounting and disclosure requirements for the annual report and accounts which bodies covered by resource accounting are required to prepare annually.

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# 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 and reliance on systems of internal control. Management action being relied on for the Park Authority 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.
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 and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by KPMG LLP.
12. 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.
13. In respect of our wider Code responsibilities, we also plan to review the findings and consider other areas of Internal Audit's work including records management, planning processes and systems and project management.

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## Materiality

14. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. Based on our knowledge and understanding of CNPA we have set our planning materiality at 1% of gross expenditure. For 2014/15 planning materiality is £47,000. We set a lower level, known as performance materiality, when defining our audit procedures. 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.
16. For 2014/15 performance materiality has been set at £36,000. We will report, to those charged with governance, all misstatements greater than £1,000.
17. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value 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.

## Reporting arrangements

18. 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 Committee dates.

### Exhibit 1: Financial statements audit timetable

Key stage	Date
Review of the work of Internal Audit	January 2015
Testing of internal control systems and transactions	w/c 9 February 2015
Latest submission of unaudited financial statements with complete working papers	Friday 1 May 2015
Progress meetings with officers on emerging issues	As required during audit
Latest date for final clearance meeting with Finance Manager	Thursday 7 May 2015
Issue of ISA260 Report and agreement of unsigned financial statements for Audit Committee agenda	Friday 19 June 2015
Audit Committee date	Friday 26 June 2015
Independent auditor's report signed	Friday 26 June 2015
Final deadline for issue of annual audit report to Accountable Officer and Auditor General for Scotland	30 November 2015

19. 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.

20. We will provide an independent auditor's report (audit certificate) 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.
21. All annual reports produced by Audit Scotland are published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) after the financial statements have been laid before Parliament.
22. Planned outputs for 2014/15 are summarised at Appendix 1.

### Quality control

23. 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.



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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 is currently reviewing the arrangements for external quality reviews.

24. 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

25. 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.

26. 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.

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# Audit issues and risks

- 27. Based on our discussions with management, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for CNPA.
- 28. **Tagging of Fixed Assets:** In 2013/14, we found that the Park Authority does not tag all of its assets. The Finance Manager advised that CNPA has begun a process to tag its assets with a unique reference number. We will substantively test this at year-end to verify the completeness of the asset register and the existence of the assets.
- 29. **Trial Balance Consolidation:** In 2014/15, CNPA will consolidate its existing trial balances to form a single trial balance. There is a potential risk of error arising from this consolidation. We will perform controls testing on the General Ledger and test the consolidation of the trial balances to ensure that this has been done accurately.
- 30. **Pensions Information:** For the past two years, there has been a delay in receiving pensions information from MyCSP. This delay has been common to a number of central government bodies. We have been advised that this is due to the increased workload of MyCSP. This information is required

for the completion of the Remuneration Report. We have discussed this matter with the Finance Manager, who has agreed to keep in regular communication with MyCSP to ensure that the information is provided timeously.

- 31. **Management Override of Controls:** ISA240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements states that: *'Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.'*
- 32. In prior years, we have identified that CNPA does not have second-officer checks of journals. Whilst we consider that this is appropriate, given the size of the Park Authority, this exacerbates the risk of management override of controls.
- 33. Given this inherent risk affects all financial statements we are required to undertake relevant audit procedures to gain assurance that no override of controls has occurred. These include detailed testing of journal entries, review of accounting estimates and evaluation of any significant transactions that are outside the normal course of business.

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34. **Income:** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) require auditors to presume a risk of fraud where income streams are significant. CNPA receives most of its funding from the Scottish Government through grant-in-aid.
35. However, a material amount of external income is received from other sources, including planning fees and other income, which has an inherent risk of being materially misstated. We will perform controls testing of the trade receivables system to provide assurance that the procedures for revenue recognition are operating effectively.
36. **Approval of severance, early retirement and redundancy terms:** The Scottish Government has announced a recent amendment to the Scottish Public Finance Manual. The section on Severance, Early Retirement and Redundancy Terms has been expanded to cover settlement agreements. This refers to any binding agreement between an employer and an employee to settle an employee dispute. These normally relate to the termination of employment, but can also be used to settle disputes during employment. Central government bodies are required to consult with the Scottish Government before offering or entering into any settlement agreement, but submitting a business case.
37. **Premises:** The Park Authority has agreed in principle to remain in its current premises. The Landlord is considering the

potential to extend these, and the Park Authority's rent and utilities costs will increase as a result. The Park Authority should ensure that it has Scottish Government approval to enter into an extended lease and that it has sufficient funding to meet the increased lease and utilities costs.

38. **Business Continuity Plan:** Last year, we identified that the Park Authority did not have a business continuity plan in place. The Park Authority has now developed a draft business continuity plan, which requires revision and approval. Management should prioritise implementation of the Business Continuity Plan. We will report on progress in this area in our Annual Audit Report.
39. **IT Strategy:** The Park Authority has not developed an IT Strategy. We will report on progress in this area in our Annual Audit Report.

## Significant audit risks

40. Within these identified risk areas there is a range of more specific audit risks and these are summarised at Appendix II.

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# Fees and resources

## Audit fee

41. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.
42. In determining the audit fee we have taken account of the risk exposure of CNPA, the 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 1 May 2015.
43. The agreed audit fee for the 2014/15 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
  - your organisation's allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland

- 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.

44. 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

45. Your appointed auditor is Asif A. Haseeb. The local audit team will be led by Kevin Boyle, who will be responsible for 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.

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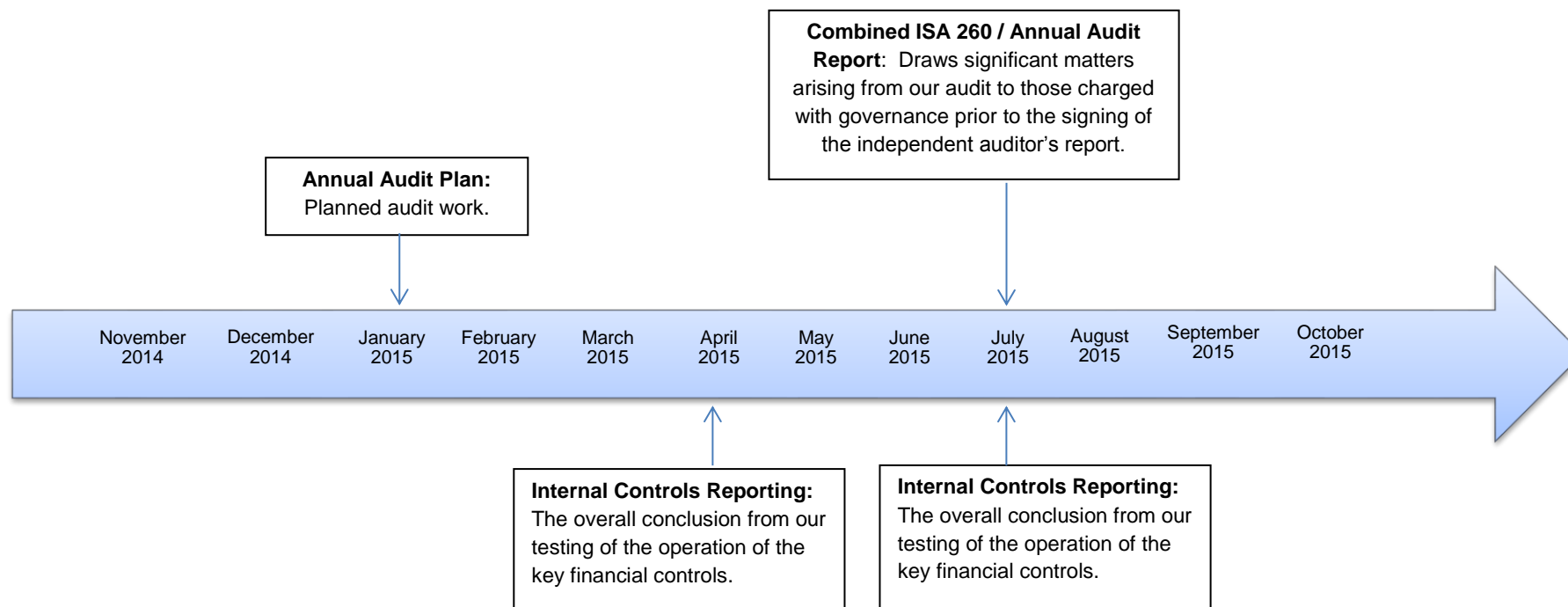
**Exhibit 2: Audit team**

Name	Experience
<b>Asif A. Haseeb MBA ACMA Engagement Lead</b>	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 21 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).
<b>Kevin Boyle LLB (Hons) DipLP CA Lead Auditor</b>	Kevin joined Audit Scotland in February 2011 and has worked on the audits of central and local government clients during this time. He has recently qualified as a chartered accountant. Prior to joining Audit Scotland, Kevin studied law at the University of Strathclyde before training as a solicitor.

Name	Experience
<b>Adrian Kolodziej MA CPFA Senior Auditor</b>	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 financial year Adrian has been involved in both financial audits and performance studies. He is currently leading on central government audits.

# Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for Cairngorms National Park Authority in 2014/15.



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# Appendix II: 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	Source of assurance	Assurance procedure
<b>Tagging Fixed Assets</b> In 2013/14, we found that the management does not tag all of its assets. <i>Risk: 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.</i>	CNPA has begun a process to tag its assets with a unique reference number. Tagging will be focused on, and limited to, only assets with an individual value above our adopted capitalisation threshold.	We will substantively test this at year-end to verify the completeness of the asset register and the existence of the assets.
<b>Trial Balance Consolidation</b> In 2014/15, management will consolidate its existing trial balances to form a single trial balance. <i>Risk: There is a risk of error arising from this consolidation.</i>	Clear working papers showing consolidation of trial balances from agreed 2013/14 closing balances.	We will perform controls testing on the General Ledger and perform substantive testing on the consolidated trial balances to ensure that this has been done accurately.

Audit Risk	Source of assurance	Assurance procedure
<p><b>Pensions Information</b></p> <p>For the past two years, there has been a delay in receiving pensions information from MyCSP. This information is required for the completion of the Remuneration Report.</p> <p><i>There is a risk that the pensions disclosures for the Senior Management Team are not received in time for inclusion in the accounts.</i></p>	<p>The Finance Manager will keep in regular communication with MyCSP to help ensure that the information is provided timeously for inclusion in the first draft accounts. Production of this information is not within the direct control of the Authority and we therefore remain reliant on the response times of MyCSP.</p>	<p>We will require sight of the MyCSP information to audit the Remuneration Report. Any delays may impact on the proposed timeline for the signing of the Independent Auditor's Report.</p>
<p><b>Approval of severance, early retirement and redundancy terms</b></p> <p>The Scottish Government has announced a recent amendment to the Scottish Public Finance Manual. Central government bodies are required to consult with the Scottish Government before offering or entering into any settlement agreement, by submitting a business case.</p> <p><i>There is a risk that the Park Authority does not comply with the revised requirements of the SPFM.</i></p>	<p>The Park Authority consults with the Scottish Government on all severance, early retirement and redundancy terms, and receives approval before entering into these.</p>	<p>We will obtain relevant supporting documentation for any redundancy or compensation for loss of office payments made during the year as part of the 2014/15 financial statements audit. We will review these to ensure they comply with the SPFM.</p>



Audit Risk	Source of assurance	Assurance procedure
<p><b>Risk of management override of control</b>  <b>Management have the ability to override controls.</b></p> <p>There is an inherent risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>This risk is exacerbated by the lack of second officer checks of journals posted.</p>	<ul style="list-style-type: none"> <li>• No history of management manipulation of financial statements.</li> <li>• Strong culture of openness and transparency in reporting financial results.</li> <li>• Low level of estimation uncertainty within the Authority's financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Evaluation of any significant transactions that are outside the normal course of business.</li> </ul>
<p><b>Identification and Assessment of the Risks of Material Misstatement Due to Fraud in revenue recognition</b></p> <p>Based on the material levels of income collected by the audited body (Planning Fees and Other Income), there is a presumption that there are risks of fraud in revenue recognition.</p>	<p>CNPA has adequate controls over its income to prevent fraud.</p>	<p>We will perform controls testing over the trade receivables system to confirm that the procedures over revenue recognition are working effectively.</p>