

Cairngorms National Park Authority

INTERNAL AUDIT REPORT

Project Financing

December 2019

LEVEL OF ASSURANCE

Design	Operational Effectiveness
Moderate	Moderate



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REPORT STATUS	
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DISTRIBUTION LIST	
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Members of the Audit & Risk Committee	

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EXECUTIVE SUMMARY

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)	
Design	 Generally a sound system of internal control designed to achieve system objectives with some exceptions.	High	
Effectiveness	 Evidence of non compliance with some controls, that may put some of the system objectives at risk.	Medium	 2
		Low	 3
		Total number of recommendations: 5	

OVERVIEW

Background

In accordance with the 2019-20 Internal Audit Plan, it was agreed that Internal Audit would review the design and operating effectiveness of the controls in place at Cairngorms National Park Authority (CNPA) surrounding project financing arrangements.

CNPA are currently engaged in four projects: LEADER, Tomintoul & Glenlivet Landscape Partnership (T&G), Capercaillie and the Great Place Badenoch Project (GPB).

The LEADER programme is a European Union initiative which aims to increase support to local rural community and business networks to build knowledge and skills, and encourage innovation and co-operation in order to tackle local development objectives. LEADER is part of the Scottish Rural Development Programme 2014-2020, for which CNPA is an Accountable Body. The project is investing £3.8million into communities of the Cairngorms National Park. All project claims have to be paid out by December 2020.

The roles and responsibilities of CNPA, Cairngorms Local Action Trust (CLAT) and Cairngorms Local Action Group (CLAG) in relation to LEADER have been documented within a Memorandum of Agreement between the bodies, which was agreed in December 2014. The CLAT is responsible for monitoring the income and expenditure position of LEADER. CNPA is responsible for the receipt and effective stewardship of all LEADER resources made available by the Scottish Government, and is also responsible for supplying cash flow financing and providing support on financial and management accounting, creditor payments and grant disbursements.

The T&G project aims to use the rich heritage of Tomintoul & Glenlivet area to promote rural regeneration. Work includes projects to gather oral history, conserve important buildings, restore woodland and improve paths in the area. It is a £3.5million project, and £2.3million is funded by National Lottery Heritage Fund (NLHF). The project will end in September 2020.

EXECUTIVE SUMMARY

OVERVIEW

Background (continued)

The roles and responsibilities of the T&G Project Board, Project Team and the Applicant (CNPA) have been documented within a Partnership Agreement, which was agreed in July 2015. The Agreement describes that the Applicant (CNPA) should oversee the financial management, monitoring and reporting of the Project, guided by the Project Manager, and act as grant recipient on behalf of the Partners.

The Capercaillie project is a partnership focusing on population monitoring, habitat creation, sustainable recreation planning and work enabling communities to make decisions and take informed action for Capercaillie. It is a £555k project that is partly funded by NLHF (62%) with the remaining funded by the partners. The development stage of the project is running to March 2020. A decision will be made in July 2020 by NLHF as to whether a delivery stage grant will be awarded.

The GPB is a partnership with key local organisations involved in heritage across Badenoch. It is a £438k project and is partly funded by NLHF (80%). The project has been extended, by agreement with NLHF, to 31 March 2021. CNPA has a lead stewardship role for financial management, accounting and grant claims of the projects for Capercaillie and GPB.

Financial data for each of the projects is recorded separately within CNPA's management accounts. Management accounts are prepared on a monthly basis by CNPA's Finance Manager and staff.

LEADER claims for reimbursement are submitted to the Scottish Government usually within 10 days of a payment for a project claim, and monthly for administration cost claims via the Local Actions in Rural Communities System (LARCs) portal. A Scottish Government Administration Claims Guidance document has been provided to all CLAG staff, which provides guidance on evidencing expenditure, breaches and penalties, separation of duties, requests and returns, and key LEADER Finance team contacts. The document lists the eligible LEADER expenses, including direct staff costs, training, events and travel and subsistence. All expenditure must be supported by a fully transparent audit trail.

CNPA submits project returns to NLHF for T&G, Capercaillie and GPB on a quarterly basis for reimbursement of funds in arrears. Where expenditure is greater than £500 supporting documentation must be provided. NLHF has guidance on eligible expenditure in their application guidance.

CNPA's Finance & Delivery Committee receive financial monitoring reports at least 3 times in a financial year, which includes an update on each of the projects.

EXECUTIVE SUMMARY

OVERVIEW

Background (continued)

The Cairngorms Local Action Group Trust (Cairngorms Trust) is the overseeing Board for LEADER. Update reports are presented on a quarterly basis, which includes details on committed expenditure and funding remaining. Financial reports are presented on a monthly basis to the T&G's Partnership Board. Capercaillie's Project Board and GBP's Board both meet on a quarterly basis, and progress reports are prepared by the Project Manager which include an update on spend to date against budget.

Scope and Approach

The scope of our review was to assess whether:

- The roles and responsibilities, particularly financial responsibilities of Cairngorms National Park Authority and the Partnership Boards in relation to project activities are clearly defined;
- There is clear financial separation between Cairngorms National Park Authority activities and project activities;
- There is a sound understanding of eligible project expenditure and an effective process in place for claiming eligible expenditure;
- There are effective processes in place to ensure sufficient management information is provided to Partnership Boards to discharge their role; and
- There are robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting and cash flow expectations.

Our approach was to conduct interviews to establish the controls in operation for each of our areas of audit work. We then sought documentary evidence that these controls are designed as described. We sought to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

A de-brief meeting was undertaken before completing the review to discuss findings and initial recommendations

EXECUTIVE SUMMARY

OVERVIEW

Good Practice

During our review, we identified a number of areas of good practice as follows:

- Financial roles and responsibilities for the projects are clearly defined;
- Income & expenditure for CNPA and each of the four projects are clearly separated in CNPA's financial reporting arrangements;
- There is regular financial reporting on the projects to the project boards and CNPA's Finance and Delivery Committee; and
- CNPA management can view live financial reports as and when they require from the financial system.

Key Findings

Notwithstanding the areas of good practice noted above, we also identified a number of opportunities for improvement in the project financing arrangements as follows:

- **Management Review:** The last 3 management team meeting minutes were reviewed and there was no evidence to support that management looked at the financial position of the organisation. Management rarely review the live financial reports on the finance system;
- **NLHF Claim:** For T&G we selected a sample of 5 transactions from the return, and 2 had no supporting documentation. For the Great Place we selected a sample of 3 transactions, and 2 had no supporting documentation;
- **T&G Cash Flow Forecasting:** Cash flow forecasting reports are not completed for T&G on a regular basis. A forecast was completed during the audit, however prior to this a forecast has not been prepared for 18 months;
- **Financial Forecasting:** At the time of the audit, CNPA's forecast outturn for the year was not completed. Therefore management are unable to see the forecast year-end position and compare this to budget; and
- **Cash Flow:** NLHF will not release funds until they have received a progress report on the project. T&G's progress report was submitted on the 25th of November for the quarter to 30th September 2019, and funds were received on the 12th of December. Therefore there is over a 2 month delay in receiving funds. The return was for £416k.

EXECUTIVE SUMMARY

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Conclusion

We are pleased to offer moderate assurance over the design and operational effectiveness of the project financing arrangements at Cairngorms National Park Authority.

RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE

- ☑ The roles and responsibilities, particularly financial responsibilities, of Cairngorms National Park Authority and the Partnership Boards in relation to project activities may not have been clearly defined.
- ☑ There may not be clear financial separation between Cairngorms National Park Authority activities and project activities.
- ☑ There may not be effective processes in place to ensure sufficient management information is provided to Partnership Boards to discharge their role.

DETAILED RECOMMENDATIONS

RISK: There may not be robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting and cash flow expectations

Ref.	Finding	Sig.	Recommendation
1	<p>Management Review It is good practice for management to regularly review and challenge their organisations financial position.</p> <p>The last 3 CNPA management team meeting minutes were reviewed and there was no evidence to support that management looked at the financial position of the organisation.</p> <p>CNPA’s financial system allows management to run live financial reports as and when they require. Management rarely look at this information.</p> <p>There is a risk there is inadequate oversight by CNPA’s management team of expenditure.</p>		<p>We recommend that review of management accounts is a standing agenda item for CNPA Management Team meetings on a monthly basis.</p> <p>We recommend Finance consult with the Management team to determine what financial information they would find useful and update reporting if necessary.</p>

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Recommendation accepted. It is worth noting that the Director of Corporate Services is in close liaison with the Finance Manger on a weekly basis and monitoring budget position and any issues throughout each month. Exceptions would always be raised at Management Team if required. It is also worth noting that the audit took place over October / November, while the peak cycle for management activity on budget in typically from January into March in the absence of significant budget issues. That said, it is accepted that the regular overview of budget monitoring has slipped off the Management Team agenda and should be added as a standing items to ensure this key area of monitoring work is considered regularly and any challenge capable of being made.</p>	<p>Responsible Officer: <i>Director of Corporate Services</i></p> <p>Implementation Date: <i>January 2020</i></p>

DETAILED RECOMMENDATIONS

RISK: There may not be a sound understanding of eligible project expenditure or an effective process in place for claiming eligible expenditure.			
Ref.	Finding	Sig.	Recommendation
2	<p>NLHF Claim</p> <p>CNPA provide Heritage Lottery Fund with evidence of expenditure where the value is greater than £500.</p> <p>For the T&G project we selected a sample of 5 transactions from the return, and 2 had no supporting documentation.</p> <p>For the Great Place project we selected a sample of 3 transactions, and 2 had no supporting documentation;</p> <p>NLHF has not yet come back to CNPA to question the return not agreeing to supporting documentation.</p> <p>There is a risk there is an ineffective process in place for claiming expenditure.</p>		<p>We recommend CNPA reviews its procedures for submitting its supporting documentation to NLHF to ensure that all required documentation is provided.</p> <p>CNPA should consider adding an additional review prior to the submission, which should be evidenced.</p>
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>There are limitations in terms of number and size of documents which can be loaded when making a claim on the NLHF portal. It appears that in the samples the compression of PDFs led to some documents being omitted. For future claims the compressed composite PDFs will be checked for completeness. (Please note that in both cases the claims were paid in full.)</p>			<p>Responsible Officer: <i>Finance manager</i></p> <p>Implementation Date: <i>Immediate on completion of December claims</i></p>

DETAILED RECOMMENDATIONS

RISK: There may not be robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting and cash flow expectations			
Ref.	Finding	Sig.	Recommendation
3	<p>T&G Cash Flow Forecasting To help ensure the project operates within budget and there are no cash flow issues it is good practice to complete cash flow forecasting reports.</p> <p>Cash flow forecasting reports are not completed for T&G on a regular basis. A forecast was completed during the audit, however prior to this a forecast has not been prepared for 18 months.</p> <p>There is a risk T&G may not operate within its budget and may have cash flow issues.</p>	●	We recommend cash flow forecasting reports are completed for T&G up until the project's completion.
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
<p>An outline cash flow to the end of the project has now been received. The cash position of the project will be monitored on a monthly basis until the project closure in September.</p>			<p><i>Responsible Officer:</i> Project manager & finance manager</p> <p><i>Implementation Date:</i> 31 January 2020</p>

DETAILED RECOMMENDATIONS

RISK: There may not be robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting and cash flow expectations

Ref.	Finding	Sig.	Recommendation
4	<p>Financial Forecasting To ensure sound financial management it is good practice to regularly update the forecast year-end position and compare to budget.</p> <p>At the time of the audit, CNPA’s forecast outturn for the year was not completed. Therefore management are unable to see the forecast year-end position and compare this to budget in their snapshot reports. A forecast year-end position is provided to the Finance & Delivery Committee at their three meetings in a year.</p> <p>There is a risk there may not be robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting.</p>	●	<p>We recommend forecasting of CNPA’s year-end position is completed on a regular basis and is available for management to review.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>The Authority aims to break even, or come close to break even on Core expenditure annually. While the 19/20 budget presented to the Board was “unbalanced” subsequent additional grants in aid from Scottish Government and financial management indicate that the authority will again break even. For 20/21 the projections will include a lookthrough to the forecast outturn.</p>		<p><i>Responsible Officer:</i> <i>Finance manager</i> <i>Implementation Date:</i> 31 March 2020</p>	

DETAILED RECOMMENDATIONS

RISK: There may not be a sound understanding of eligible project expenditure or an effective process in place for claiming eligible expenditure.			
Ref.	Finding	Sig.	Recommendation
5	<p>Cash Flow CNPA submit claims to NLHF on a quarterly basis. NLHF may take up to 15 working days to release the cash following a return submission. NLHF will not release the funds until they have received a progress report on the project.</p> <p>T&G's progress report was submitted on the 25th of November for the quarter to 30th September 2019, and funds were received on the 12th of December. Therefore there is over a 2 month delay in receiving funds. The return was for £416k.</p> <p>There is a risk that CNPA is not submitting timely progress reports and as a result faces cash flow issues, due to the lag in receiving funds.</p>	●	We recommend Project Managers are reminded of the need to complete and submit their progress reports to NLHF in a timely manner.
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
Accepted			<p><i>Responsible Officer:</i> Project manager</p> <p><i>Implementation Date:</i> 31 March 2020</p>

APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Daniel Ralph	Finance Manager
Liz Henderson	Community Support Manager
Lynne Anderson	Cairngorms LEADER Admin & Support Officer

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX III - TERMS OF REFERENCE

BACKGROUND

In accordance with the 2019-20 Internal Audit Plan, it was agreed that Internal Audit would review the design and operating effectiveness of the controls in place at Cairngorms National Park Authority surrounding project financing arrangements.

PURPOSE OF REVIEW

The purpose of this review is to provide management and the Audit & Risk Committee with assurance that Cairngorms National Park Authority has well designed, effective controls in place in relation to their project financing administration. We will review to assess the effectiveness of the project accounting procedures that are in place for externally funded projects. We will review Cash Flow considerations associated with these activities to validate if they are managed effectively and project expenses are being recorded, managed and reported effectively.

KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding, the key risks associated with the area under review are:

- The roles and responsibilities, particularly financial responsibilities, of Cairngorms National Park Authority and the Partnership Boards in relation to project activities may not have been clearly defined;
- There may not be clear financial separation between Cairngorms National Park Authority activities and project activities;
- There may not be a sound understanding of eligible project expenditure or an effective process in place for claiming eligible expenditure;
- There may not be effective processes in place to ensure sufficient management information is provided to Partnership Boards to discharge their role; and
- There may not be robust reporting arrangements in place to ensure effective oversight of the projects, including forward forecasting and cash flow expectations.

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