

Loch Lomond and the Trossachs National Park Authority

Report on the 2006/07 Audit



November 2007



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Executive Summary

Introduction

In 2006/07 we audited the financial statements of the Loch Lomond and The Trossachs National Park Authority (the Authority) and we looked at aspects of performance management and governance. This report sets out our key findings.

Financial position

We have given an unqualified opinion on the financial statements of the Authority for 2006/07.

For 2006/07 the accounting treatment of grant-in-aid changed in accordance with the Financial Reporting Manual (FReM). This resulted in the grant-in-aid received from the Scottish Government being accounted for through reserves rather than the Operating Cost Statement.

As a result of these changes the Operating Cost Statement shows net operating cost of £6.946 million (2005/06: £6.167 million). This expenditure was funded by grant-in-aid of £6,168 million received from the Scottish Government (2005/06: £5,777 million). The Authority finished the year with a deficit of £99,932 (2005/06: £90,778 surplus).

Performance

After a period of consultation the finalised National Park Plan was submitted at the end of 2006 and received Ministerial approval on 15 March 2007. The Plan's strategic priorities and associated actions are set out, focusing on policies and initiatives aimed at securing positive change over the next five years. The Authority clearly has a main role in delivering much of what is in the Plan but recognises that success will depend on the role and contribution of partners, including resources. We will monitor progress in implementation of the action plan to deliver the Plan during 2007/08.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for the Authority operated satisfactorily during the year, as reflected in the Statement on Internal Control.

In August 2007 the Chief Executive retired. An interim Accountable Officer has been appointed pending the recruitment of a new Chief Executive. At the same time, some other senior staff have left the organisation and an organisational review is being progressed, which may impact on roles and responsibilities of senior



staff in the future. This is an area we will monitor in 2007/08 particularly in relation to any impact on governance and performance.

Looking forward

The Authority faces a number of challenges in the coming year and we will focus on some of these areas as part of our 2007/08 audit. For example the single environment and rural service which follows on from the Scottish Government's *On the Ground* initiative, aims to develop a single body which will provide a simpler, more efficient service from public bodies within the rural and environment areas. This will have a significant impact on the way the Authority operates and we will monitor developments in this area in 2007/08.

We will monitor the implementation of the National Park Plan and consider how progress is being made in developing performance targets as part of the implementation. We will also review the progress that the Authority has made in strengthening their arrangements for securing Best Value since our baseline review work in 2005/06.

Audit Scotland
November 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of the Authority. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 30 April 2007. This plan described the work we planned to carry out on financial statements, performance and governance.
2. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Authority during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial Statements

4. In this section we summarise key outcomes from our audit of the Authority's financial statements for 2006/07, and comment on the key financial management and accounting issues faced.

Our responsibilities

5. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Authority and its expenditure and income for the period in question
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the regularity of the expenditure and receipts.
6. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the chief executive as accountable officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of the Authority.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of the Authority for 2006/07.

Financial position

2006/07 Outturn

8. For 2006/07 the accounting treatment of grant-in-aid changed in accordance with the Financial Reporting Manual (FReM). This resulted in the grant-in-aid received from the Scottish Executive being accounted for through the Reserves rather than the Operating Cost Statement.
9. As a result of these changes the Operating Cost Statement shows net operating cost of £6.946 million (2005/06: £6.167 million). This expenditure was funded by grant-in-aid of £6.168 million received from the Scottish Executive (2005/06: £5.777 million). The Authority finished the year with a deficit of £99,932 (2005/06: £90,778 surplus).



10. The Authority's net asset position increased to £6.435m (2005/06: £2.952 million). This increase is mainly due to the new HQ currently under construction.

2007/08 Budget

11. Scottish Ministers have set an initial resource budget for the Authority of £6.875 million for 2007/8.

Issues arising from the audit

12. We reported the following issues to the Audit Committee on 28 August 2007:
13. **Submission of the accounts for audit** – Accounts were submitted for audit in mid-June, in line with the agreed timetable. However, the management commentary and some other narrative sections were not received until early August. We will work with the Authority to support the delivery of the agreed timetable in 2007/08.
14. **Compensation Payment** – During the financial year, a compensation payment was made to a former employee, following termination of their contract. The payment was made following advice from the Authority's senior management, in consultation with the Authority's HR consultant. During the process, the Convener of the Authority was kept informed of the decision process, as was the sponsor directorate at the Scottish Government. However at the time of audit, there was limited documentary evidence to support the decision, including what criteria were included in any risk assessment, and how the level of award was arrived at. While sufficient supporting evidence was gathered to satisfy us for the 2006/07 accounts, the Authority has agreed to review its procedures in light of this for any future decisions or cases.
15. **Fixed asset measurement** – The Authority has incurred around £380,000 in professional fees relating the construction of a new headquarters building. In line with the Authority's policy, these fees have been classed as revenue expenditure. However, tangible fixed assets, including those under construction, are normally measured at cost, including the element of any professional fees directly attributable to an asset. As a consequence of adopting the current policy, the deficit disclosed on the operating cost statement has increased, and both the carrying value of assets under construction, and the general reserve balance have reduced. However, when the new headquarters building is valued in February 2008, this approach will result in a smaller loss (or larger gain) being charged to the operating cost statement in 2007/08.
16. While we have accepted the treatment the Authority has agreed to review its capitalisation policy and procedures for 2007/08 to ensure this continues to satisfy its needs and government accounting requirements.

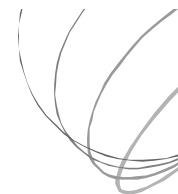


Statement on internal control

17. The Statement on Internal Control provided by the Authority's Accountable Officer reflected the main findings from both external and internal audit work. This records management's responsibility for maintaining a sound system of internal control, operating a risk management strategy and the organisation's commitment to continuous development and improvement.

Regularity assertion

18. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.



Governance

Overview of arrangements

19. This section sets out our main findings arising from our review of the Authority's governance arrangements. This year we reviewed:
- key systems of internal control
 - internal audit.
20. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 8-10). Our overall conclusion is that overall governance arrangements are sound and have operated throughout 2006/07.

Systems of internal control

21. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In his annual report for 2006/07 the internal auditor provided his opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness on the systems of internal control.
22. As part of our audit we reviewed the high level controls in a number of the Authority's systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.

Internal audit

23. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2006/07 audit we assessed whether we could place reliance on the work of the Authority's internal auditors. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on a number of internal audit reviews.

Performance

24. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
25. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

Performance

26. After a period of consultation the finalised National Park Plan was submitted at the end of 2006 and received Ministerial approval on 15 March 2007. The Plan's strategic priorities and associated action plan are set out, focusing on policies and initiatives aimed at securing positive change over the next five years. The five year action plan has been developed as six programmes of activity structured around the Plan's six policy themes, which are:
 - land use and natural heritage
 - awareness, understanding and involvement
 - recreation and enjoyment
 - people, communities and culture
 - economic growth and sustainability
 - built heritage and design quality.
27. A seventh programme identifying priority activities related to the Authority's statutory planning function has also been included.
28. The Authority clearly has a main role in delivering much of what is in the Plan but recognises that success will depend on the role and contribution of partners, including resources. This is an area we will monitor progress on as part of our annual audit in 2007/08.
29. Targets have been identified that will help guide appropriate allocation of resources in the Authority's own corporate plan and those of partner organisations. Indicators of progress have also been identified to monitor progress and performance, by the Authority and partners over the next five years. In some cases SMART targets and indicators have not yet been developed, and these will be put in place as policy guidance develops.

Looking forward

30. The Authority faces a number of challenges in 2007/08, which include:

- **Single environment and rural service** – Following on from the Scottish Executive's On the Ground initiative, Ministers are seeking to simplify and combine many of the services that are currently being performed by nine key rural and environmental organisations, including the National Parks. The aim is to operate a single body which will provide a simpler, more efficient service. This will have a significant impact on the way the Authority operates.
- **Implementation of the National Park Plan** – Successful implementation of the National Park Plan represents a significant challenge for the Authority. It will be important for the Authority to ensure that appropriate mechanisms are in place to ensure effective and co-ordinated delivery of the Plan objectives. As part of our work for 2007/08 we will consider progress made.
- **Completion of the new HQ** – This is due to be completed in December 2007. The project has already been subject to three Gateway Reviews and will be reviewed again in November 2007.
- **Implementation of new corporate structure** - In August 2007 the Chief Executive retired. An interim Accountable Officer has been appointed pending the recruitment of a new Chief Executive. At the same time, some other senior staff have left the organisation and an organisational review is being progressed, which may impact on roles and responsibilities of senior staff in the future. This is an area we will monitor in 2007/08 particularly in relation to any impact on governance and performance.
- **Best Value** – As part of the 2007/08 audit we will be reviewing the progress that the Authority has made in strengthening their arrangements for securing Best Value since our baseline review work in 2005/06. Over the next year we will also be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as this is one of our key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.
- **Shared services** – The Scottish Executive has issued a consultation on a National Strategy for Shared Services which aims to create efficiency savings and improve service by freeing resources for investment in front line services. Shared Services is a key element of the wider Public Sector reform agenda and represents a key part of the Efficient Government Initiative.
- **Efficient Government** - The achievement of future Efficient Government targets represents a challenge for the organisation and its partner organisations.