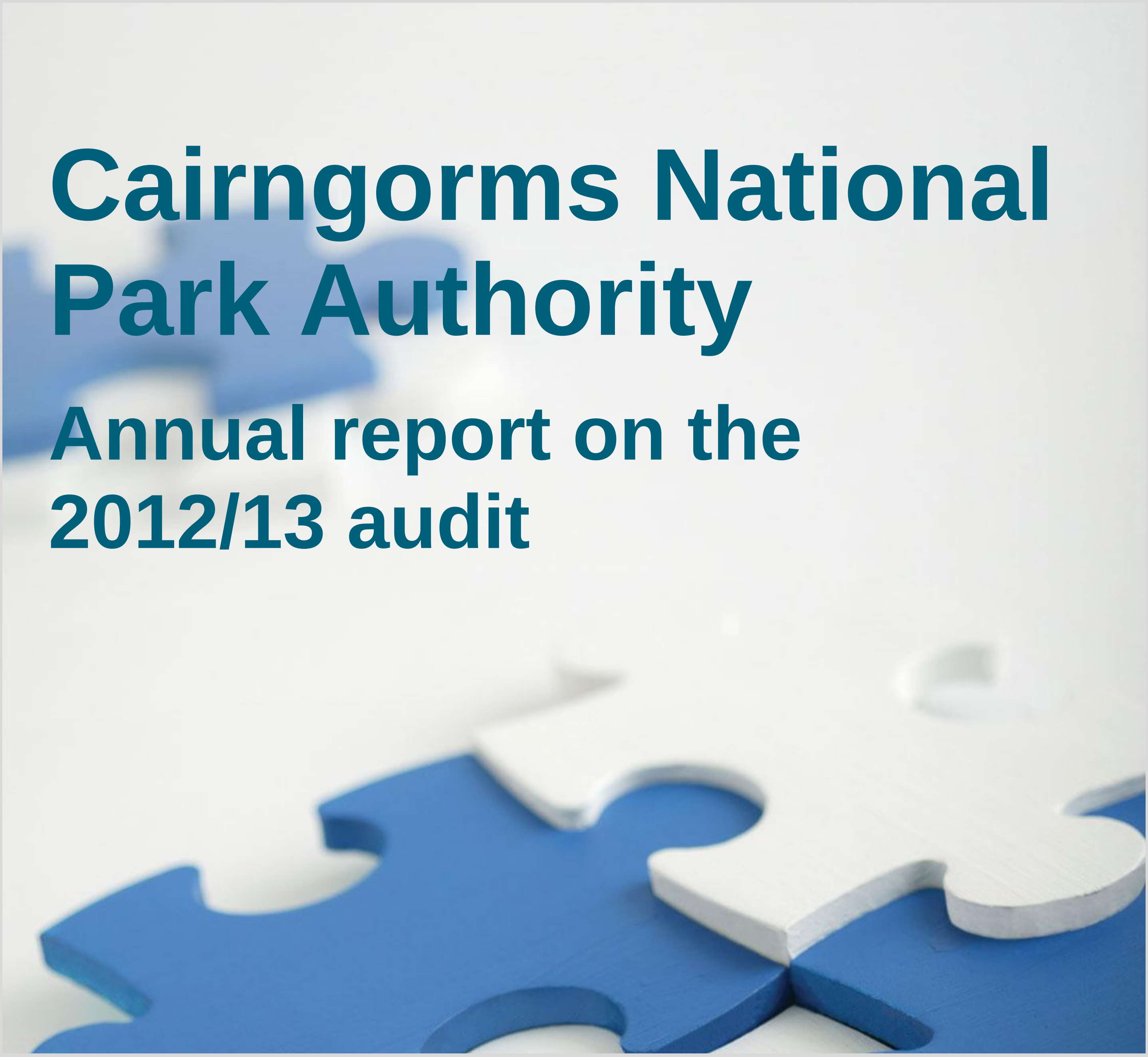
Cairngorms National Park Authority

Annual report on the 2012/13 audit



AUDIT SCOTLAND

Prepared for Cairngorms National Park Authority and the Auditor General for Scotland

August 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key Messages

2012/13

We have given an unqualified opinion that the financial statements of Cairngorms National Park Authority ("the CNPA" or "the Park Authority") for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The 2012/13 financial statements show a surplus of £0.065m (2011/12 - £0.012m deficit). This is the difference between the funding received from the Scottish Government (£6.282m) and the net expenditure for the year as shown on the Statement of Comprehensive Net Expenditure (£6.217m). The CNPA's Statement of Financial Position shows net assets of £0.492m, an increase of £0.065m in comparison to 2011/12 (2011/12 - £0.012m reduction). This is due to increases in trade receivables and non-current assets balances and reductions in trade payables and cash balances.

Overall the Park Authority's system of internal control and arrangements for the prevention and detection of fraud were satisfactory during 2012/13.

Outlook

We confirm the financial sustainability of the CNPA on the basis of its financial position and projected three-year financial summary in the Corporate Plan 2012-2015. The Park Authority's financial projections indicate a relatively stable grant-in-aid (GIA) as a main source of funding. The GIA funding is expected to reduce by £0.08 million for 2013/14, in line with proposed forward budget allocations set out in the Scottish Government’s budget proposals for 2012/13 to 2014/15.

The latest monitoring report presented to the Finance Committee in August 2013 indicates a deficit of £0.166m for 2013/14. There was no formal paper presented in relation to 2014/15, however the Corporate Plan 2012-2015 indicates a deficit of £0.425m. The deficits in part follow a financial management policy of over-programming available resources to allow for slippage in partnership funding agreements and delivery plans.

Nevertheless, the financial position going forward is therefore becoming more difficult than previous years and represents a major challenge for the Park Authority. Expenditure will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

Introduction

1. This report is the summary of our findings arising from the 2012/13 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.

3. 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. This report has been prepared for the use of the CNPA and no responsibility to any third party is accepted.

4. Appendix A 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. The Accountable Officer, management team and members of the Board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

5. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the CNPA's Audit Committee.

Matters to be reported

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 at a meeting on 31 January 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. 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 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan. However, due to the need to carry out supplementary audit work relating to LEADER trade receivables balances (see paragraph 8 below), an additional fee of £500 was agreed with management.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of the CNPA for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally signed on 23 August 2013.

8. The unaudited financial statements and supporting documentation were submitted for audit on 2 May 2013, in accordance with the agreed timetable. The working papers, provided with the financial statements, were of a high standard and staff provided excellent support to the audit team. However, because of delays in clearing matters related to LEADER trade receivables balances, there was an additional on-site audit visit on 25 July 2013 and the financial statements sign-off was delayed to 23 August 2013.

9. The CNPA is required to follow the 2012/13 Government Financial Reporting Manual (FReM) and we confirmed that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings during the financial statements audit

10. The most significant changes, required to the financial statements as a result of the audit process and under the accounting guidelines, were outlined in our International Standard on Auditing (ISA) 260 report, presented to the Audit Committee on 16 August 2013:

    - As LEADER trade receivables balances did not agree to supporting documentation, management performed a detailed reconciliation process which resulted in a decrease of £33,942 in these balances
    - Trade receivables opening balances were adjusted to their original values brought forward from 2011/12 financial year. Initially, these balances with the total value of

£0.095m had been written down or written off as evidence to support these balances had not been available.

11. In February 2013 the Agriculture, Food and rural communities Directorate of the Scottish Government issued a letter to Local Action Groups (LAG) in relation to European Union (EU) LEADER programme funds. This correspondence was instigated by Audit Scotland's national review of 57 LEADER cases, 20 of which were classified as containing financial errors with a further 14 cases treated as compliance issues. As a result the Scottish Government withheld payments for all LEADER claims for Quarter 3 and 4 of 2012/13 and requested a detailed review to be performed by all LAGs.

12. This review should follow further detailed guidance sent by the Scottish Government in April 2013 and needs to be completed by the end of August 2013. The review includes examination of supporting documentation and expenditure eligibility for those claims.

13. The CNPA acts as a lead partner for the Cairngorms LAG and provides it with administrative support under the terms of a service level agreement with the Scottish Government. As a result of the above guidance the review of LEADER claims is currently ongoing at the Park Authority and we have been advised that it will be completed on time.

Refer to Action Point 1

Financial position

2012/13 Outturn

14. The main financial objective for the CNPA is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.

15. The Park Authority operated within the resource budgets for 2012/13 as detailed in Table 1 below which also shows the budget changes that occurred during the financial year.

Table 1: Resource Budget

	Initial Budget (£'000)	Final Budget (£'000)	Actual Outturn (£'000)	Under / (Over) utilised
Resource DEL	4,613	4,713	4,713	0
Capital DEL	33	1,569	1,569	0
Total	**4,646**	**6,282**	**6,282**	**0**
Non Cash DEL	78	108	106	**(2)**

Source: Grant-in-aid Funding Letter, 2012/13 Accounts

16. The CNPA's gross expenditure for 2012/13 was £7.072m (2011/12 - £5.971m). The most significant elements of expenditure were operational plan expenditure of £4.062m (57%) of

which £1.444m (36%) was spent on "Getting Involved" segment, board members and staff costs of £2.310m (33%) and other operating costs of £0.594m (8%).

17. The 2012/13 financial statements show a surplus of £0.065m (2011/12 - £0.012m deficit). This is the difference between the funding received from the Scottish Government (£6.282m) and the net expenditure for the year as shown on the Statement of Comprehensive Net Expenditure (£6.217m). After excluding grant-in-aid transferred for capital expenditure of £0.150m and depreciation of £0.106m, the financial result for 2012/13 is a surplus of £0.021m (2011/12 - £0.086m).

18. In our Annual Audit Plan we highlighted the risk that the Park Authority might not be able to spend the additional capital funding received in July 2012 (£0.685m) and in December 2012 (£0.851m) before 31 March 2013. However, there has been no slippage in "shovel ready" capital programme and the Park Authority delivered the programme using the whole allocated budget.

19. Compared to the previous year, the Park Authority's gross expenditure increased from £5.971m to £7.072m (18%), mainly reflecting a significant increase in operational expenditure in relation to the shovel ready projects. The strategic context for this is set out within the National Park Partnership Plan 2012-17, with community empowerment and outdoor learning (using National Parks in the Curriculum, learning from the Park, volunteering to support nature) progress grouped under 'Getting Involved' segment and being long term desired objectives.

2012/13 Financial position

20. As at 31 March 2013 the Park Authority's statement of financial position shows an increase in total equity of £0.065 million. This can be attributed to the various movements in the assets and liabilities with none of which are particular significant.

21. The financial position of the CNPA remains stable. Its income and expenditure on activities have been projected to 2014/15 based on continuing grant-in-aid provision from Scottish Government in line with the Scottish Government’s budget proposals for 2012/13 to 2014/15. The Park Authority has recognised that the combined pressures of declining revenue funding and increasing cost pressures continue to impact on its financial management.

Financial planning

22. CNPA has a one year operational and budget plan, providing an indicative budget for 2013/14 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.

23. 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.

24. The CNPA is planning to perform a detailed review of expenditure to date in September 2013 with a view to refining the projected outturn for the year. The Finance Committee will be provided with quarterly monitoring reports.

25. Grant-in-Aid funding for 2013/14, allocated to the Park Authority by the Scottish Government, is £4.566m, a 3.1% reduction on 2012/13 (£4.713m, excluding additional capital grant of £1.569m). The total income is forecast at £6.903m, comprising the grant-in-aid allocation (including the capital grants), other income of £0.050m and operational plan income of £0.794m. This has been split into £3.190m (58%) to finance the core expenditure and £2.320m (42%) to finance the operational plan, which represents an overall decrease in expenditure of £0.662m from last year and a planned deficit of £0.166m. 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.

26. The Park Authority is seeking to protect the levels of financial investment in capital projects which progress sustainable economic development within the National Park. Priority investment has been allocated from additional capital resources made available to the projects such as the Speyside Way capital maintenance and extension, Aviemore Country Park pathworks and Laggan Forest Visitor Centre.

27. The main area where the budget has increased significantly (by £0.136m) are staff costs. This is due to additional 5 staff posts that were considered necessary to deliver against strategic outcomes from the corporate plan. Additionally, an amount has been provided to cover a pay award (2.5% of the payroll) to staff agreed in June 2013 and backdated to contractual award date of 1st April 2013 in line with the Scottish Government's public sector pay policy.

28. The Park Authority consulted on a proposed management restructure in May 2013, reporting on that consultation and setting out final decisions on the structure changes in June 2013. The impact of structural changes has been to reduce the number of directors on the organisation's top team from 4 to 3. There is also a reduction in the numbers of second tier managers, previously titled 'programme managers' and now titled 'heads of service', from 9 to 7.

29. These changes came into effect on 5 August 2013, along with a number of changes in line management and role descriptions for some staff below this second tier management structure. The Director of Corporate Service's consultation report also indicated that, while the Authority continues to plan to accommodate some members of its staff group within its Ballater office, management continued to consider the best geographic location for staff teams with a further staff consultation planned for late August or early September 2013.

30. The Park Authority also continues to target efficiency savings in non-staff elements of the operational running costs, such as IT and professional support, non-pay board and staff costs, procurement and contracted services expenditure.

31. The average number of days lost through sickness in 2012/13 was 5.2 per person, a decrease on 5.6 days in 2011/12. Management continues to monitor the absence levels. The staff

complement number was 48 full time equivalent (FTE) at the end of 2012/13 and represent 22% decrease from 2010/11 headcount (61.3 FTE).

Corporate governance and systems of internal control

Overall governance arrangements

32. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found that CNPA had sound governance arrangements in place which included a number of committees overseeing key aspects of governance.

Accounting and internal control systems

33. 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.

34. During 2012/13 we carried out a review of the main financial systems (general ledger, trade payables, cash income and banking, payroll), focusing on the key controls in place within each system.

35. 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 on 26 April 2013 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 2012/13 financial statements. We identified a small number of minor issues which management agreed to rectify.

36. 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.

37. However, we were unable to perform detailed review of their specific assignments. We were therefore not able to place formal reliance on their work in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit) to reduce our audit testing. We amended our financial statements approach and increased sample sizes accordingly.

38. 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 areas:

- Partnership working
- EU Funding applications
- Performance management
- Charging scheme
- Corporate governance and risk management.

Corporate governance and risk management prevention and detection of fraud and irregularity

39. 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 within CNPA are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Best value

Best value

40. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with the Park Authority, agree to undertake local work in this area.

41. Last year we have reported that the Park Authority had not formally considered guidance issued by the Scottish Government in March 2011 for accountable officers on Best Value in public services. We also highlighted that the policy statement on best value had not been reviewed for over six years. We were advised last year that the Park Authority's best value approach would be reviewed and the results of the review presented to the Audit Committee before the end of the 2012/13 financial year. However, the ongoing workloads created by LEADER and staff restructuring have led to a delay in finalisation of this review. The review results are now planned to be presented to the Audit Committee in September 2013.

Refer to Action Point 2

42. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Summary of recently published reports we feel would be of interest and relevance to the Audit Committee are provided below.

Managing early departures from the Scottish public sector (May 2013)

43. This report is designed to help public bodies improve their management and reporting of early release schemes. The main message of the report is that Scotland’s public bodies follow good

practice with early departures but need to demonstrate the value for money from schemes allowing staff to take early retirements and redundancies.

44. The report states such schemes can provide significant savings, and public bodies generally follow good practice. However, there are striking differences between the schemes and a marked inconsistency in how public bodies report the costs and expected savings. Almost 14,000 employees took such packages between 2010 and 2012 – around one in 40 of all public sector staff. While the cost of these amounts to more than £550 million, organisations generally expect to make savings from their action over a number of years.

45. Some pointers on good practice are included in the report, such as:

- demonstrating that schemes are value for money
- making sure schemes are clear, well-designed and meet business needs
- reporting openly on the costs and savings and
- ensuring good scrutiny over schemes and particularly of exit packages for senior executives.

Developing financial reporting in Scotland (July 2013)

46. This report highlights why good financial reporting matters and it is also a contribution to preparations for new financial powers as the Scotland Act 2012 is implemented over the next three years. Its says that while the audited accounts of public bodies across Scotland provide a sound base for financial reporting and scrutiny, there is currently no single complete picture of the devolved public sector's finances, and particularly its assets and liabilities.

47. The report concludes that reporting of Scottish finances will need to develop further in light of new powers. The Scottish Government will need to make sure its financial reporting is more comprehensive and transparent as it prepares for new tax and borrowing powers. Areas of particular consideration include:

- the long-term consequences of funding assets from borrowing or public private partnerships
- how forecasts and other estimates are made
- how potential liabilities are assessed and monitored
- the clarification of complex accounting issues.

Acknowledgements

48. We would like to express our thanks to the staff 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 A: Action Plan

Issues and Planned Management Action

Action Point	Refer Para No	Issue Identified	Planned Management Action	Responsible Officer	Target Date
1	11 to 13	The CNPA is a lead partner for the Cairngorms LAG and provides it with administrative support. As a result of the revised national guidance the review of LEADER claims is currently ongoing at the Park Authority in common with ongoing work within all other LAGs and lead partners across Scotland. The Park Authority should ensure that it adheres to the Scottish Government guidance and completes the review on time.	We have been reviewing all required projects in line with Scottish Government requests and are due to report to Scottish Government on 30 August as requested.	Director of Corporate Services and LEADER Manager	31 August 2013
2	40 to 41	In 2011/12 we reported that the CNPA had not formally considered guidance issued by the Scottish Government on Best Value and the policy statement on best value had not been reviewed in CNPA for over six years. The Park Authority's best value approach review was to be finalised by the end of 2012/13 financial year. However at the time of writing this report has not been presented to the Audit Committee.	This update is now coming to the September Audit Committee, following finalisation by Management Team over the summer. The ongoing workloads created by LEADER and staff restructuring have led to a delay in finalisation of this review.	Director of Corporate Services	13 September 2013