

# Loch Lomond & The Trossachs National Park Authority

## Annual report on the 2012/13 audit



Prepared for Loch Lomond & The Trossachs National Park Authority and the Auditor General for  
Scotland

September 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.

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# Contents

<b>Key Messages .....</b>	<b>4</b>
2012/13.....	4
Outlook.....	4
<b>Introduction.....</b>	<b>5</b>
<b>Matters to be reported .....</b>	<b>6</b>
Conduct and scope of the audit.....	6
Audit opinion & accounting issues .....	6
Significant findings during the financial statements audit.....	6
Whole of Government Accounts .....	7
Financial position .....	7
Corporate governance and systems of internal control.....	11
Best value .....	12
National performance reports .....	13
<b>Appendix A: Action Plan .....</b>	<b>15</b>
Issues and Planned Management Action .....	15

# Key Messages

## 2012/13

We have given an unqualified opinion that the financial statements of Loch Lomond & The Trossachs National Park Authority ("the LL&TTNPA" 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 £0.400m (2011/12 - £398k deficit). This is the difference between the funding received from the Scottish Government (£9.511m) and the net expenditure for the year as shown on the Statement of Comprehensive Net Expenditure (£9.111m). The LL&TTNPA's Statement of Financial Position shows net assets of £5.267m, a reduction of £0.610m in comparison to 2011/12 (2011/12 - £0.920m reduction on 2010/11). As last year, this is mainly due to a further increase in pension fund liability.

A voluntary severance scheme was implemented during the year, the costs of which have been substantially funded by the Scottish Government. On 30 November 2012 15 employees left the Park Authority through this scheme and one employee changed from full time to part time hours. This is expected to realise a net annual saving in staff salaries of around £0.160m whilst providing some flexibility in staff resourcing.

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

## Outlook

We confirm the financial sustainability of the LL&TTNPA on the basis of its financial position and projected financial summary to 2014/15. The Park Authority's financial projections indicate a stable grant-in-aid funding and budgets with a degree of over programming, resulting in planned deficits of £0.176m and £0.175m for 2013/14 and 2014/15, respectively.

Over the course of 2012/13, the Park Authority has put in place measures for delivering long-term financial efficiencies. Revised staff terms and conditions, new salary structures and the use of temporary contracts are expected to deliver long-term efficiencies. A new organisational structure was formally introduced in June 2013. The Park Authority also continues to target efficiency savings in non-staff elements of the operational running costs as well as seeks additional opportunities in new and innovative ways to supplement grant-in-aid with different funding streams.

The financial position going forward is however becoming more challenging, with limited increases in funding coupled with increasing cost pressures. This represents a major challenge for the Park Authority and 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 Loch Lomond & The Trossachs National Park Authority ("the LL&TTNPA" or "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 LL&TTNPA 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 Park Authority'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 on 5 March 2013, 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 2012/13 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 LL&TTNPA 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 issued and signed on 25 June 2013.
9. The unaudited financial statements and supporting documentation were submitted for audit on 24 May 2013, in accordance with the agreed timetable. However, the statements originally submitted were in the form of Excel workbooks and did not include the management commentary, the remuneration report, the statement of accountable officer's responsibilities, the governance statement and the accounts direction. The complete set of the unaudited financial statements was subsequently provided on 27 May 2013. The issues arising from the audit were discussed with senior officers throughout the audit process. They were also included in a summary matters arising schedule issued to management on 3 June 2013.
10. The working papers, provided with the financial statements, were of a high standard and the staff provided excellent support to the audit team allowing us to complete our on-site fieldwork by the planned target date of 31 May 2013.
11. The LL&TTNPA is required to follow the 2012/13 Government Financial Reporting Manual (FR&M) and we confirmed that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings during the financial statements audit

12. The most significant changes, required to the financial statements as a result of the audit process, were outlined in our International Standard on Auditing (ISA) 260 report, presented to the Audit Committee on 25 June 2013:

- Additional disclosures were made in the financial statements for the strain on pension fund expenditure of £0.141m, relating to the early retirements during 2012/13. This resulted in an increase of expenditure and trade payables by £0.141m.
- The holiday pay accrual of £0.184m was re-calculated on the basis of actual salaries and actual remaining leave for each employee rather than on the basis of an average hourly rate and average hours leave untaken as per the initial calculation. This resulted in a £0.081m decrease in expenditure and trade payables balances.

13. In our ISA260 report we also reported that:

- No formal register of interest for senior staff was in place which would allow the Park Authority to identify any potential conflicts of interest and related party transactions. We received confirmation as part of our management representation letter that the related parties disclosures were materially complete. We have been advised that a formal register of interest for senior staff is currently in development and is due to be presented to the Executive for approval by the end of September 2013. In the meantime any interests continue to be lodged informally to the Park Authority's Governance Manager.

**Action point 1**

- The Park Authority did not have a legal title for the Gateway Centre and was therefore legally not a proprietor. Scottish Enterprise, who own the land on which the Centre was built, has issued a letter to the Park Authority indicating that it has no interest in the land. However, the Park Authority should obtain a legal title to prevent any disputes in the future. We have been advised that negotiations between the lawyers continue for the legal title to be obtained as soon as practicable.

**Action point 2**

## Whole of Government Accounts

14. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The Park Authority is not required to submit a consolidation pack, as the value of its gross income /expenditure and assets/liabilities are below the threshold of £10m for completion.

## Financial position

15. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

## 2012/13 Outturn

16. The main financial objective for the LL&TTNPA is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
17. 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	6,633	7,014	7,014	0
Capital DEL	0,967	2,497	2,497	0
<b>Total</b>	<b>7,600</b>	<b>9,511</b>	<b>9,511</b>	<b>0</b>
Non Cash DEL (depreciation)	774	774	284	<b>490</b>

Source: Grant-in-aid funding letter, \*2012/13 budget as per the Board approved budget in March 2012

18. The LL&TTNPA's gross expenditure for 2012/13 was £9.825m (2011/12 - £8.392m). In line with last year, the most significant elements of expenditure were board member and staff costs of £4.972m (51%) and business plan expenditure of £2.911m (30%), of which £2.274m or 78% was spent on the visitor experience segment. After £9.511m of total grant-in-aid received, other income of £0.714m and interest received of £0.001m, the 2012/13 financial statements show a surplus of £0.400m.
19. However, after excluding grant-in-aid transferred for capital expenditure of £0.648m, depreciation of £0.284m, return on pension assets of £0.065m and other pensions income of £0.076m, the financial result for 2012/13 is a net expenditure position of £0.104m (2011/12 - £0.047m).
20. Compared to the previous year, the Park Authority's gross expenditure increased by £1.433m. This is mainly due to a £1.073m increase in business plan expenditure as a result of the shovel ready project funding received in the year. This increase can be largely attributed to a visitor experience spend in line with the 'Five lochs visitor management plan 2012-17'. The aim of the plan is *"To reduce the impact of visitor pressure and anti social behaviour on local communities and the environment while realising the visitor experience potential of the 5 Lochs area"* and the total cost of the plan is expected to be around £5.7m. The strategic context for this is set out within the National Park Partnership Plan 2012-17.
21. 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 (£1.115m) and in December 2012 (£0.292m) before 31 March 2013. However, there has been no slippage in the "shovel ready" capital programme and the Park Authority delivered the 2012/13 programme using the whole allocated budget.
22. The LL&TTNPA has achieved its 3% efficiency target for 2012/13, based on the baseline established in its grant-in-aid letter from Scottish Government. This resulted in £0.200m total financial savings.



## 2012/13 Financial position

23. The LL&TTNPA's Statement of Financial Position shows net assets of £5.267m, a reduction of £0.610m in comparison to last year (2011/12 - £0.920m reduction on 2010/11). As last year, this is largely due to a further increase in pension fund liability from £0.872m to £1.741m. This value is based on annual independent valuations at the year end. In addition, trade payables balance increased by £0.411m, however this increase was offset by an increase in cash and cash equivalents.
24. The financial position of the Park Authority 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 however recognises that the combined pressures of declining revenue funding and increasing cost pressures continue to impact on its financial management.

## Financial planning

25. The LL&TTNPA has a 2 year operational budget and business plan, providing financial information for 2013/14 and an indicative budget for 2014/15 based on relatively stable grant-in-aid provision.
26. The arrangements for budget setting and monitoring in place are sound. Expenditure against the business plan is reviewed monthly by the executive and quarterly progress reports are monitored by the delivery group. The Board receives summarised financial information, tailored to members' needs.
27. As per the Board approved 2013/14 budget, Grant-in-Aid funding allocated to the Park Authority for 2013/14 by the Scottish Government was forecasted at £7.567m, excluding an additional capital grant for shovel ready projects of £0.300m, received in December 2012. This was a 1% reduction on 2012/13 (£7.615m, excluding an additional funding towards the voluntary severance scheme of £0.366m and additional capital grants for shovel ready projects of £1.407m and for HQ repairs of £0.123m). The total income was forecast at £8.466m, comprising the grant-in-aid allocation, additional capital grant of £0.300m and income from other sources of £0.599m (such as planning fees of £0.170m).
28. In March 2013 the Board approved budgeted expenditure for 2013/14 of £8.642m (£8.311m in 2012/13), split into £2.744m (32%) to finance business plan expenditure and £5.898m (68%) to finance core expenditure. As in previous years, this included a degree of over programming (a deficit of £0.176m was planned) to allow for any slippages in project development and delivery and to have a bank of projects ready should additional funding become available during the financial year.
29. The main areas where the budget has increased are visitor experience (£1.905m) and rural development (£0.349m) whilst general running costs have been held broadly static at 2012/13 levels. These allocations reflect the key strategic priorities in the 2012-17 Corporate Plan. The Park Authority is seeking to protect the levels of financial investment in capital projects and

priority investment has been allocated to the projects that directly relate to strategic priorities such as the Loch Lomond visitor management plan, national park signage and West Highland Way. The £0.300m of additional capital funding for 2013/14 shovel-ready projects has been allocated to the signage projects (£0.225m) and to the Rowardennan visitor facilities master plan and site improvements (£0.075m).

30. Over the course of 2012/13, the Park Authority put in place measures for delivering longer term financial efficiencies. For example, revised staff terms and conditions, new salary structures and the use of temporary contracts are expected to deliver long-term efficiencies and allow more flexibility in dealing with pay awards and performance management.
31. The Park Authority also continues to target efficiency savings in non-staff elements of the running costs such as property, administration and non-pay related Board and staff costs. In addition, the Park Authority seeks additional opportunities in new and innovative ways to supplement grant-in-aid with different funding streams.
32. The most recent Finance and Performance report for 2013/14 highlighted that, as at 30 June 2013 there was a small deficit of £22k compared to a £167k surplus in the same period last year. This largely related to increased business plan expenditure in the first quarter of 2013/14 due to the ongoing work at Loch Lubnaig (phase 1 of the Five Lochs Visitor Management Plan) to ensure completion by September 2013. In line with the original Board approved budget, a deficit of £0.176m continued to be projected for the 2013/14 financial year.
33. Management have advised that since the Board approved the 2013/14 budget in March 2013 (see paragraphs 27, 28 and 29), the Park Authority has received a draft grant-in-aid letter for 2013/14 showing grant-in-aid funding of £7.465m, a £0.102m reduction on the initially forecasted allocation. The visitor experience budget has consequently been reduced to £1.890m. However, the planning fee income forecast has been increased to £0.200m due to a higher number of planning applications than expected. These amended forecasts have been approved by the Executive, with management planning to present them to the Delivery Group for formal approval in November 2013.

## Workforce management

34. A voluntary severance scheme was implemented in 2012/13, the costs of which have been substantially funded by Scottish Government. 15 employees left the Park Authority in November 2012 and 1 employee changed from full time to part time hours. This is expected to realise a net annual saving in staff salaries of around £0.160m whilst providing some flexibility in staff resourcing in line with the Park Authority's strategic objectives. A new organisational structure was formally introduced in June 2013.
35. During 2012/13, the Park Authority completed a review of staff terms and conditions and in December 2012 it reached a collective agreement, with Unison accepting proposed revisions to terms and conditions. The revised terms and conditions took effect from 01 January 2013.
36. The Park Authority is now working jointly with Unison in developing the new performance reward system and work-life balance policies.

## Corporate governance and systems of internal control

### Overall governance arrangements

37. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements. Overall we found that the LL&TTNPA has sound governance arrangements in place which include appropriate committees overseeing key aspects of governance.

### Accounting and internal control systems

38. 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. The extent of this work should also be informed by their assessment of risk and the activities of internal audit.
39. During 2012/13 we carried out a review of the main financial systems (payroll, the financial ledger, trade payables, trade receivables, capital accounting and cash), focusing on the key controls in place within each system.
40. 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 2013 that the LL&TTNPA'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.
41. 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.
42. However, we were unable to perform a 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 have amended our financial statements approach and increased sample sizes accordingly.
43. We were able to place reliance on the work of internal audit 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
  - Charging scheme
  - Performance management
  - Visitor experience.

## Public Services Network (PSN)

44. Many public sector bodies use Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. Government Secure Intranet (GSI) is the mechanism that allows them to share data and services. They are required to reapply annually to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN) and from November 2012 all applicants have to apply to connect to PSN.
45. The Park Authority has not used the GSI mechanism and currently has no plans to apply to connect to the PSN. A significant amount of time and resource has been invested in establishing a shared services arrangement with Cairngorms National Park Authority for provision and support of ICT systems. During 2012/13 ICT contingency planning and disaster recovery mechanisms have been implemented, including secure off site back-up storage of data.

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

46. 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.
47. 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 the LL&TTNPA are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

## Best value

48. 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 audited bodies, agree to undertake local work in this area.
49. We reported in our 2011/12 Annual audit report that whilst the LL&TTNPA showed a good awareness of best value, it had not formally considered the guidance on Best Value in Public Services, issued by the Scottish Government in March 2011. Last year we were advised 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, at

the time of writing this report a detailed self-assessment has not yet been performed and a formal policy on best value not yet developed.

### Action point 3

## National performance reports

50. 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)

51. 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.
52. 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.
53. 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)

54. 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. It 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.
55. 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

We would like to express our thanks to the staff of the LL&TTNPA 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	13	No formal register of interest for senior staff is in place There is a risk that the Park Authority may not identify any potential conflicts of interest and related party transactions.	A formal register of interest for senior staff is currently in development and is due to be presented to the Executive for approval by the end of September 2013. In the meantime any interests continue to be lodged informally to the Park Authority's Governance Manager.	Governance Manager	30 September 2013
2	13	The Park Authority does not have a legal title for the Gateway Centre, included within the assets in its financial statements, and is therefore legally not a proprietor. There is a risk that the Park Authority's ownership of the Gateway Centre may be challenged therefore a legal title should be obtained to prevent any disputes in the future.	Scottish Enterprise, who own the land on which the Centre was built, has issued a letter to the Park Authority indicating that it has no interest in the land. Negotiations between the lawyers continue for the legal title to be obtained as soon as practicable.	Director of Operations	31 March 2014
3	49	Last year we reported that the Park Authority had not formally considered the guidance on Best Value in Public Services, issued by the Scottish Government in March 2011. We were	The Park Authority's best value approach was considered and reviewed as part of the 3 E's Report "Improving Efficiency, Effectiveness	Director of Corporate Services	31 March 2014

Action Point	Refer Para No	Issue Identified	Planned Management Action	Responsible Officer	Target Date
		<p>advised then that the Park Authority's best value approach would be reviewed and the results presented to the Audit Committee before the end of the 2012/13 financial year. However, at the time of writing this report a detailed self-assessment has not yet been performed and a formal policy on best value not yet developed.</p> <p>There is a risk that the Park Authority may not be able to demonstrate that its arrangements satisfy its duty of best value.</p>	<p>and Economy in the Exercise of Our Functions" included within the Annual Report 2012/13. There has been a delay in formally reviewing the guidance issued in March 2011 due to conflicting priorities and changes in management at both parks. The guidance will be considered in full and a formal policy developed for approval by the Audit Committee by 31 March 2014.</p>		