

# Cairngorms National Park Authority

Final External Audit Annual Report to the  
Board and the Auditor General for Scotland

2016/17 Financial Year

29 September 2017



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## Key aspects of our audit plan at a glance

Materiality has been updated based on unaudited financial statements to £50,000 (1% of gross expenditure)

Performance materiality is set at £32,000 and we have reported to management everything identified over £1,000

Significant Audit risks were presumed risks under ISA's: management override of controls and risk of fraud in revenue recognition

Other identified risks at planning includes: completeness and manipulation of expenditure; completeness of employee remuneration, and the going concern risk

We can confirm we are independent of the Authority and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. Our final fee remains unchanged at £10,780. No non-audit services have been provided to the Authority in 2016/17.

# Key Messages

We anticipate issuing an unqualified opinion on:

- True and fair view of the financial statements
- Regularity
- Other prescribed matters

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the Audit and Risk Committee in their role as those charged with governance, and the Auditor General for Scotland. This report will be published on the Audit Scotland website at: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

This report has been discussed and agreed with management, and presented to the Audit and Risk Committee on 29 September 2017. We would like to thank management and staff for their co-operation and assistance during the audit.

GRANT THORNTON UK LLP

29 September 2017.

The main elements of our work included:

- An Audit of the 2016/17 Annual report and accounts
- A review of the Performance Report and Accountability Report (including the Governance Statement)
- Completion of the 'Role of Board's return submitted to Audit Scotland to inform a future performance publication.

The CNPA accounts were submitted to us on 12th May 2017. The unaudited annual report and accounts were completed to a good standard and supported by good working papers. The audit only identified a small number of reclassification adjustments and limited disclosure amendments.

Financial performance was broadly in line with the budget set at the start of the year, which was £4.3 million of resource DEL and £0.1m of capital DEL. An agreed budget of £4.3 million revenue DEL and £0.26 million capital. DEL is in place for 2017/18.

The three scenic routes of Glenshee, Corgarff and Tomintoul are now complete. Work is ongoing with a variety of partners to support the development of other routes.

Decisions regarding the CNPA budget are taken by the Board, which is made up of seven representatives from the five Councils, five locally elected members and seven members appointed by Scottish Ministers.

The 2016/17 operational year was the last of the current five year Cairngorms National Park Partnership Plan (NPPP). The Authority will issue a separate report to the Authority's Board in October 2017 on the delivery of priorities from the NPPP, clearly linking outcomes and performance in the period.



# The Financial Statements Audit



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## Summary

We have not had to alter or change our audit approach which was set out in our audit plan, presented to the Audit and Risk Committee on 10 March 2017. As set out in our plan we have updated our materiality calculations to be based on the unaudited 2016/17 financial statements.

Our audit is now complete.

A summary of corrected and uncorrected adjustments are set out in Appendix 1. This includes a reallocation of liabilities from provisions to payables and other creditors. Similarly, a reallocation of liabilities between receivables and payables. In line with triviality we have reported all potential audit adjustments identified above £1,000 to management; along with identified disclosure enhancements. Corrected misstatements include a reallocation of liabilities.

Overall, the draft financial statements we received on the 12<sup>th</sup> of May were produced to a good standard and the annual report was completed to a good compliance standard as well.

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## Internal Control Environment

In discharging our respective ISA responsibilities we have sought to understand the Authority's control environment. In particular we have:

- considered procedures and controls around related parties, journal entries and other key entity level controls; and
- performed walkthrough procedures on key controls around identified risk areas for example payroll and operating expenses.

No material weaknesses in the accounting and internal control systems were identified during the audit, which could have an adverse impact on the Authority's ability to record, process, summarise and report financial and other relevant data, so as to result in a material misstatement in the financial statements.

Under ISAs we are required to report to those charged with governance the main issues arising from our audit of the Annual Accounts and Report. This report discharges our obligations under the relevant ISAs.

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## Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of the Internal Audit during 2016/17. We have reviewed the Internal Audit Plan and the final internal audit report, which is considered relevant to our external audit. No risk were identified by Internal Audit that caused us to re-consider or alter our audit plan.

We note these reports provide 'substantial' assurance over the Authority's arrangements and the annual Internal Audit opinion is "that very effective arrangements are in place in relation to the Park Authority's systems of governance, risk management and internal control."

The findings do not disagree with our knowledge and understanding of the Authority as an organisation and its risk profile. We consider the work of Internal Audit to be proportionate and relevant to the Authority's activities.

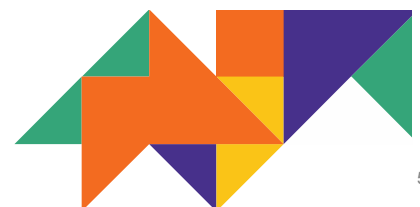
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## LEADER funding

The Park Authority is the lead body for the Tomintoul & Glenlivet Landscape Partnership and Accountable Body for Cairngorms LEADER. Given the nature of these arrangements advances are made to project applicants which are in turn reclaimed from funders. Therefore, the Park Authority is potentially exposed to commitments made for which future funding will not be received. There is no ability for the Park Authority to reclaim from any other party.

We have reviewed the status of ongoing discussions and noted resolution of the only area where initial queries were received around the eligibility of funding.

Given the nature of these arrangements, we requested that management update the contingent liability disclosure to reflect the potential for contingent liabilities. This disclosure was updated in the revised accounts.



# Our identified audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. These are a combination of mandated risks and matters arising from our risk assessment. We have set out below a summary of the work undertaken on these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Management override of controls</b> <i>(Significant risk)</i></p> <p>Under ISA (UK&amp;I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p><b>Work undertaken</b></p> <p>Completed walkthrough of the controls and procedures in place around journal entries.</p> <p>Reviewed the key accounting estimates, judgements and decisions made by management.</p> <p>Tested journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software.</p> <p>Reviewed unusual and/or significant transactions.</p>	<p><b>Key accounting estimates:</b> We did not identify any significant areas of bias in key judgements by management and judgements were consistent with prior years.</p> <p>Key accounting estimates considered potential of clawback of Leader funding and depreciation. We have reviewed correspondence with Scottish Government in relation to the Leader programme and the Authority has updated its contingent liability disclosures to reflect its exposure. Similarly, we recalculated depreciation and noted no issues.</p> <p><b>Journals:</b> We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no significant concerns noted. We also targeted large and/or unusual journals and noted no issues from our testing. However, we did find some journals relating to legitimate technical adjustments that are not fully backed up with supporting evidence. Also on occasions the Finance Manager is posting and authorising the same journals. The Authority should review its journal authorisation arrangements.</p>
<p><b>The revenue cycle includes fraudulent transactions</b> <i>(Significant risk)</i></p> <p>Under ISA 240 (UK&amp;I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. The Authority's income is composed of £0.6 of revenue and £4.45 million of grant funding.</p> <p><b>Work undertaken</b></p> <p>Completed walkthrough of the controls and procedures in place around sales invoicing and sales ledger.</p> <p>Agreed revenue to supporting documentation and cash receipts in the year/ post period end to gain comfort over validity of these transactions.</p> <p>Performed cut-off testing to gain comfort around the completeness and accuracy of recognised income.</p> <p>Considered the recoverability of any outstanding balances at year-end.</p>	<p>We rebutted the risk of fraud relating to the grant funding stream from the Scottish Government given the nature of the funding received. For Scottish Government funding we agreed this to the allocation letter and income receipted to bank.</p> <p>We have performed our year-end cut-off procedures and assessed recoverability of outstanding amounts at year-end.</p> <p>For all revenue balances we completed detailed procedures on all material income streams.</p> <p>No issues noted from our review of the treatment of revenue in the year.</p>

# Other identified audit risks (continued)

Audit plan identified risk and work completed	Our conclusion
<p><b>Completeness of employee remuneration</b> <i>(other risk)</i></p> <p>There is a risk that employee remuneration and benefit obligations and expenses are understated.</p> <p><b>Work undertaken</b></p> <p>Completed walkthrough of controls and procedures in place around payment of staff.</p> <p>We conducted sample testing of staff members to contract and recalculation of PAYE, NI and pension contributions.</p> <p>We reviewed the relevant disclosures in relation to staff costs within the financial statements.</p>	<p>We have assessed the completeness of employee remuneration and believe we have gained sufficient assurance over the payroll process to conclude that there are no material misstatements.</p> <p>Through our testing of employees we did not identify any issues. Similarly, our analytical review of employee remuneration including overall staff costs, NI and pensions highlighted that the Authority were operating within our expected thresholds.</p>
<p><b>Completeness of operating expenditure</b> <i>(other risk)</i></p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities, which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Reconciled creditors ledger to the general ledger and financial statements.</p> <p>Performed cut-off testing on pre year-end and post year-end transactions to gain comfort around the completeness and accuracy of recognised expenditure.</p> <p>Gained comfort around the regularity of expenditure and the application of public funds in accordance with the Scottish Public Finance Manual (SPFM).</p>	<p>We have concluded through the performance of our year-end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital.</p> <p>Through our pre and post year-end sample based cut off testing we did not identify any expenditure that was incorrectly accounted for.</p> <p>Project expenditure and other operating costs were substantively tested with no issues noted.</p>

# The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below:

Performance report	Corporate Governance Statement	Remuneration report
<ul style="list-style-type: none"> <li>• The report outlines performance analysis and highlights the key issues facing the Authority</li> <li>• All required disclosures included in line with financial reporting manual</li> <li>• Financial performance analysis included is in line with our understanding and work performed.</li> </ul>	<ul style="list-style-type: none"> <li>• All key required elements included within the corporate governance statement</li> <li>• There is no formal assurance gathering signoff by Directors to support the Authority’s governance arrangements to underpin the governance statement. We recommend that the Authority introduce robust assurance gathering arrangements to support annual governance statement related declarations. See <b>Action Point 1</b></li> </ul>	<ul style="list-style-type: none"> <li>• The remuneration report has been completed in line with guidelines</li> <li>• We have audited the financial information included in the remuneration report as marked up as audited information. We have no matters we wish to bring to your attention.</li> </ul>





# Judgements and estimates

In addition to our identified significant and other audit risks we consider other aspects of your financial statements in particular key areas of judgement. We have summarised below our observations in these areas:

## Accounting Policies

- Accounting policies are in accordance with the FReM and we consider these to be appropriate to the Authority.

## Accounting estimates and judgements

- We have identified and gained comfort over the following key estimates and judgements:
- Leader grant funding clawback
- Fixed asset depreciation policies
- Fixed asset carrying value .

## Going Concern

- The Authority has an agreed budget for 2017/18 and continues to discuss future funding with its sponsor department.
- Given the nature of the Authority as a public body receiving funding from the Scottish Government, we do not have any reason to consider the Authority is not going to continue to operate over the next 12 months from the account signing date.

## Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transaction or the period in which they were recorded.

## Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the financial statements.

# Understanding the Authority as an organisation



# Understanding the Authority as an organisation

Recognising the Code of Audit Practice during the course of our work we have routinely met with management, attended Audit and Risk Committee meetings, reviewed key committee minutes and associated papers to understand the key operational aspects of the Authority and potential future risks and challenges. In this section, we provide commentary over key aspects of the Authority's arrangements, including relevant observations and conclusions relating to financial management, financial sustainability, governance and value money.

## Financial Management

Performance tracked closely to budget in the year, with operating cash costs £16,000 (0.4%) higher than budget, and capital expenditure exactly on budget. There continues to be a strong focus on budgetary control recognising the tight financial constraints under which the Park Authority is currently operating.

## Governance and transparency

Stakeholder engagement is a key focus for the Authority, and the National Park Partnership Plan is a key facet of this. This document was issued for consultation in June 2016 through to September 2017, and sets out key proposed areas of focus within conservation and land management, visitor experience and rural development. The plan sets out the Authority's vision for this period, clearly linking these into key outcomes and proposed performance measures to be measured against going forward.

## Best value

The 2016/17 operational year was the last of the current five year Cairngorms National Park Partnership Plan (NPPP). The Authority will issue a separate report to the Authority's Board in October 2017 on the achievements in delivery of the NPPP, clearly linking outcomes and performance in the period.

## Financial Sustainability and Going Concern

Funding of £4.32m of revenue funding and £0.26m of capital funding has been agreed for the financial year 2017/18. The National Park Partnership Plan for 2017-2022 was launched on 1 June 2017, and have clearly set out the contributions to wider Scottish Government objectives. Scottish Government has asked the Authority to submit revenue budget requests for 2018/19 and 2019/20 and capital budget requests for up to 2020/21.

The Corporate Plan for 2018-2022 will be prepared during 2017/18 and will be presented to the Scottish Government Sponsor Team. The Local Development Plan for the National Park area for 2020-2025 is in the early stages, and requests for site suggestions were issued to the public in quarter 3/4 of 2016/17. The next stage of the process is a main issues report in late 2017 followed by a proposed plan in 2018.

These factors reflect the unique nature of the Park and underline the Scottish Governments commitment to the Authority's plans for it. On this basis, we are comfortable with both the going concern basis of preparation and the ongoing financial planning.

# Appendix 1 Audit Adjustments

Set out below is a summary of uncorrected and corrected misstatements.

## Uncorrected misstatements

There were no uncorrected misstatements.

## Corrected misstatements

	Statement of Comprehensive Income £000	Statement of Financial Position £000	Statement of Changes in Equity £000
<b>Reallocation of liabilities from provisions to payables and other creditors</b>			
Dr Provisions	-	178	-
Cr Trade and other payables	-	(121)	-
Cr Other liabilities	-	(57)	-
<b>Reallocation of liabilities</b>			
Dr Trade and other receivables	-	40	-
Cr Trade and other payables	-	(40)	-
<b>Accounting for investment originally expensed (<i>identified by management</i>)</b>			
Dr Investments	-	22	-
Cr Expenditure	(22)	-	-
Dr Impairment (Expenditure)	22	-	-
Cr Investment	-	(22)	-
<b>Total</b>	-	-	-

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow the Audit and Risk Committees to evaluate the impact of these matters on the financial statements. There were no material disclosure misstatements. Management has streamlined a number of disclosures following discussions around the draft accounts. Enhanced disclosures around contingent liabilities have been added to reflect the nature of LEADER funding.




# Appendix 2 Action Plan

During the course of our 2016/17 audit work we have identified the following actions for management:

	Area	Issue & Risk	Priority	Recommendation and management response
1	<b>Annual governance statement processes</b>	There is currently no formal director sign off process to support the Chief Executives Annual Governance Statement. There is a risk that there is insufficient supporting evidence to support the statements made.	Medium	<p>That the implementation of this process is considered.</p> <p><b>Management response:</b>                      Going forward the governance statement will be discussed and approved by management team prior to being presented to the board</p> <p><b>Timescale:</b>                      January – March 2018</p> <p><b>Action Owner:</b>                      Director of Corporate Services</p>

# Appendix 3 Follow up on prior year recommendations

We have undertaken a follow up of outstanding recommendations from prior years raised by the previous external auditors, Audit Scotland. The results of our work are outlined below:

Prior year finding	Action in 2016/17	Status
<p><b>Issue:</b> The Park Authority has made some progress in tagging its non-current assets. However, not all assets listed on the asset register have an asset number.</p> <p><b>Recommendation:</b> Management should ensure that all assets listed in the asset register are tagged with a unique reference number.</p>	<p>A revised Asset Tagging Policy was approved by the Audit and Risk Committee in September 2016. Under this policy, a flexible approach has been agreed as follows:</p> <ul style="list-style-type: none"> <li>- All high value, relatively portable and high risk assets will be tagged</li> <li>- Those assets which already have a unique identifying number (e.g. vehicles) do not require an additional tag</li> <li>- Lower value, lower risk and less portable assets do not require tagging</li> </ul> <p>We are satisfied that the revised policy is proportionate and reasonable.</p>	<div style="text-align: center;">                       Fully implemented                 </div>



Not implemented (red)



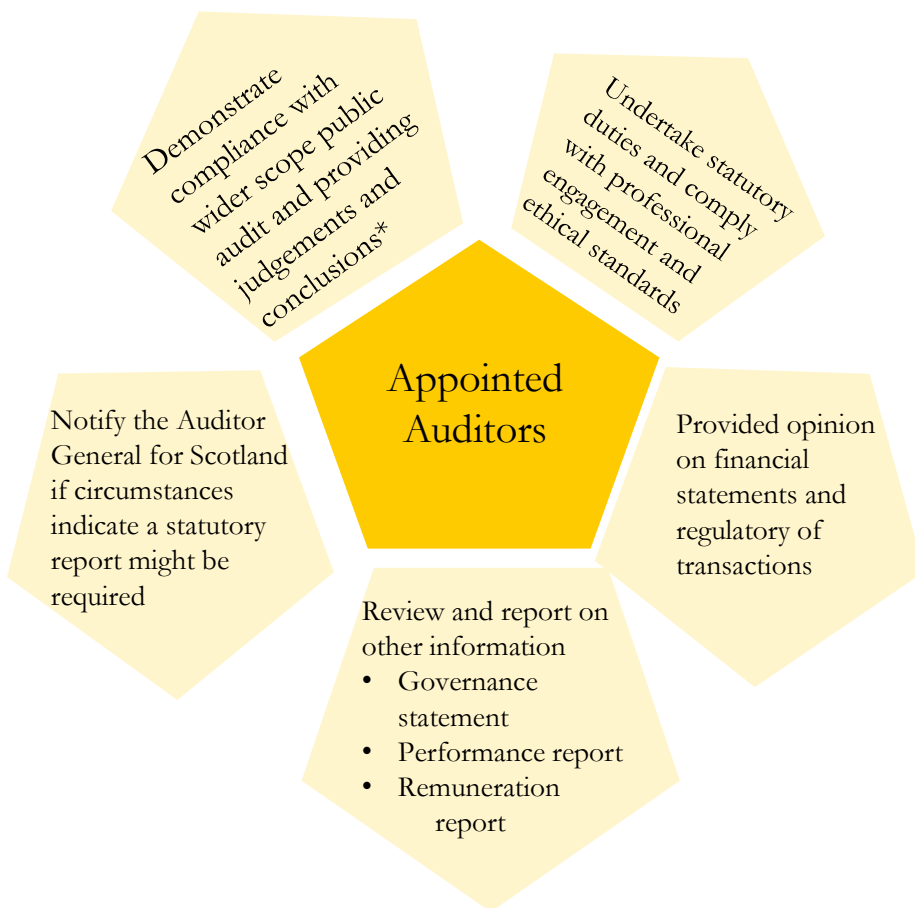
Partially implemented (amber)



Fully implemented (green)

# Appendix 4 Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



*An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISA's and the Code and may not be all that exist.*

*Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control. We have requested a standard letter of representation from the Authority.*

*The Authority has not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our work. We have not been made aware of any incidences of fraud or corruption.*

\* We have applied the smaller body status allowable under the Code of Audit Practice to Cairngorms National Park so have not undertaken a full wider scope audit. However, we have been alert to potential risks relating to: financial management; financial sustainability; governance and transparency; and value for money and have provided commentary within the section on our understanding of Cairngorms National Park as an organisation.





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