Loch Lomond and The Trossachs National Park Authority

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

2016/17 Financial Year

12 September 2017

Contents

Key aspects of our audit plan at a glance

Materiality has been updated based on unaudited financial statements to £84,000 (1% of gross expenditure)

Performance materiality is set at £55,000 and we have reported to management everything identified over £1,000

Significant audit risks were presumed risks under ISAs:
- management override of controls; and
- risk of fraud in revenue recognition

Other identified risks at planning: completeness of expenditure (fraud); completeness of employee remuneration, accounting for Gateway Centre 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 was 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 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.

This report has been discussed and agreed with management, and presented to the Audit Committee on 12 September 2017. We would like to thank management and staff for their co-operation and assistance during the audit.

GRANT THORNTON UK LLP

12 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.
- Completion of the Whole of Government accounts return.

The Financial Statements Audit

Financial Statements

The financial statements were prepared on a timely basis and working papers were of a good standard

The Performance Report and Accountability Report is in line with our knowledge of the Authority

We intend to issue a true and fair audit opinion on the financial statements, and regulatory opinion

The audited parts of the Remuneration Report are free from error

We are satisfied with the regularity of transactions and identified no areas of non-compliance with laws and regulations through our work

Testing provided reasonable assurance on all identified areas of significant and other audit risks identified in our plan

Summary

We have not had to alter or change our audit approach which was set out in our audit plan, presented to the Audit Committee on 13 March 2017. We have updated our materiality calculations to be based on the unaudited 2016/17 financial statements.

Our audit is substantially complete, subject to the finalisation of:

- Whole of government accounts procedures; and
- completion procedures including receipt of the final financial statements and management representation letter.

A summary of corrected and uncorrected adjustments are set out in Appendix 1. In line with triviality we have reported all potential audit adjustments identified above £1,000 to management; along with identified disclosure enhancements.

Overall, the draft financial statements and annual report we received on the 8th of May were of a good quality. During the audit it was identified that the Authority had not carried out a valuation assessment of its property, plant and equipment to ensure the carrying value of its assets were not materially different from their current (fair) value as at 31 March 2017. Given the value of the asset base, and that the last revaluation was carried out in 2014 there was a high risk that the value of the assets may be materially misstated. Following discussions management commissioned an external revaluation and the asset values have been materially adjusted to reflect their current (fair) value as at 31 March 2017.

Asset valuation

Following discussions we identified that an interim review of the valuation of the Authority's asset base was required to avoid the risk of a material misstatement in the financial position of the Authority. On this basis management commissioned an external revaluation that identified a material adjustment to fixed asset valuation. We recommend that Management complete an annual assessment of the valuation of assets going forward to ensure its carrying value is not materially different to its carrying value. See **Action Point 1.**

In addition, the review identified that depreciation charges relating to the revalued element were only being charged to the revaluation reserve on revaluation and not annually. This drove a prior period adjustment to restate opening revaluation reserve and general fund to transfer this element for 2014/15 and 2015/16.

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, including 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.

Internal Audit

As set out in our Audit Plan we have not placed formal reliance on the work of 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 risks 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 out 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.

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 over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
Management override of controls *(Significant risk)* Under ISA (UK&I) 240 there is mandated risk that the risk of management over-ride of controls is present in all entities (fraud risk). **Work undertaken** Completed walkthrough of the controls and procedures in place around journal entries. Reviewed the key accounting estimates, judgements and decisions made by management. Tested journal entries with a focus on unusual posting sources, times or amounts identified using our IDEA data analysis software. Reviewed unusual and/or significant transactions.	**Key accounting estimates:** We did not identify any significant areas of bias in key judgements by management and judgements were consistent with prior years. Key accounting estimates considered were pensions and depreciation. Work was carried out around the methods and assumptions used by Hymans Robertson. Similarly, we recalculated depreciation and noted no issues. **Journals:** We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We also targeted large and/or unusual journals and noted no issues from our testing.
The revenue cycle includes fraudulent transactions *(Significant risk)* Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. The Authority's income is made up of £1 million from revenue generation and £7.4 million from grant funding sources. **Work undertaken** Completed walkthrough of the controls and procedures in place around sales invoicing and sales ledger. Agreed revenue to supporting documentation and cash receipts in the year/ post period end to gain comfort over validity of these transactions. Performed cut-off testing to gain comfort around the completeness and accuracy of recognised income. Considered the recoverability of any outstanding balances at year-end.	We rebutted the risk of fraud related 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. We have performed our year-end cut-off procedures and assessed recoverability of outstanding amounts at year-end. For all revenue balances we completed detailed procedures on all material income streams. No issues noted from our review of the treatment of revenue in the year.

Other identified audit risks (continued)

Audit plan identified risk and work completed	Our conclusion
Completeness of employee remuneration *(other risk)* There is a risk that employee remuneration and benefit obligations and expenses are understated. **Work undertaken** Completed walkthrough of controls and procedures in place around payment of staff. We conducted sample testing of staff members to contract and recalculation of PAYE, NI and pension contributions. We reviewed the relevant disclosures in relation to staff costs within the financial statements.	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. 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 indicated that the Authority was operating within our expected parameters.
Completeness of operating expenditure *(other risk)* 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). **Work undertaken:** Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure. Reconciled creditors ledger to the general ledger and financial statements. Performed cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure. Gained comfort around the regularity of expenditure and the application of public funds in accordance with the Scottish Public Finance Manual (SPFM).	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. Through our pre and post year-end cut off sampled based testing we did not identify any expenditure that was incorrectly accounted for. Project expenditure and other operating costs were substantively tested with no issues noted.
Asset under construction *(other risk)* Obtained and reviewed the legal documentation around the contracts signed. Considered the treatment of the payment in relation to lease changes to establish whether it represents a lease incentive or a payment for the termination of the lease. Reviewed the reasonableness of any year-end accrual or prepayment. Reviewed the relevant disclosures relating to the transactions within the financial statements.	We have reviewed the legal documentation and concur with the accounting treatment for this asset. We are comfortable that the lease changes represent a lease incentive and that these have been appropriately treated. We are comfortable with the level of disclosure in the financial statements.

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
• The report outlines performance analysis and highlights the key issues facing the Authority • All required disclosures included in line with financial reporting manual • Financial performance analysis included is in line with our understanding and work performed.	• All key required elements included within the corporate governance statement.	• The remuneration report has been completed in line with guidelines. • We have audited the financial information included in the remuneration report (marked audited information). We have no matters we wish to bring to your attention.

Judgements and estimates

In addition to our identified significant and other audit risks we consider other aspects of the Authority's 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:
- Actuarial assumptions for defined benefit scheme – see below
- Fixed asset depreciation policies
- Fixed asset IAS16 carrying value disclosures post audit suggested changes.
- Enhanced disclosures around critical estimates

Going Concern

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

Pension assumptions

- Pension increase rate of 2.4% (2015/16 2.2%)
- Salary increase rate of 4.4% (2015/16 4.2%)
- Discount rate of 2.7% (2015/16 3.6%)

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

Recognising the Code of Audit Practice during the course of our work we have routinely met with management, attended Audit Committee meetings, reviewed 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 £124,000 (2%) lower than budget, and capital expenditure £17,000 (1%) higher than budgeted. There continues to be a strong focus on budgetary control recognising the tight financial constraints under which the Park Authority is operating.

Financial Sustainability and Going Concern

Funding of £6.27m of revenue funding and £0.860m of capital funding has been agreed for the financial year 2017/18. The National Park Partnership Plan for 2018-2023 is out for consultation at present and this will be signed off by the Minister in due course. Scottish Government have 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 2018-2023 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 2017-2026 has also recently been approved by Scottish Government.

These factors reflect the unique nature of the Park and underline the Scottish Governments commitment to the Authorities plans for it. On this basis, we are comfortable with the assumption that the Park Authority is a going concern, and with the financial sustainability plans it has in place.

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 April 2017, and sets out key proposed areas of focus within conservation and land management, visitor experience and rural development. This Plan also sets out the Authority's vision for this period, clearly linking these into key outcomes and proposed performance measures to be assessed against. We commend the Authority on the effective stakeholder engagement and empowerment strategies it has put in place.

The Authority has experienced a significant uplift in the level of both complaints and information requests in year, with the new camping management byelaws being a key driver of this.

Best value

There were significant developments in renovating the former Gateway Centre at Loch Lomond Shores in partnership with Scottish Enterprise. A tenant has been found for the previously vacant building, with investment to improve the quality of the building and tailor to the needs of the tenant. This represents a significant partnership with another public sector organisation to enhance and improve this asset and generate future value.

Appendix 1 Audit Adjustments

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

Uncorrected misstatements

	Statement of Comprehensive Net Expenditure £000	Statement of Financial Position £000	Statement of Changes in Equity £000
Minor client identified adjustments Dr Debtors Cr Accruals Cr SOCNE	 - - (4)	 6 (2) -	 - - -
Depreciation adjustment Dr Revaluation reserve Cr Depreciation charge (reduction)	 - (2)	 - -	 2 -
Total	(6)	4	2

Corrected misstatements

	Statement of Comprehensive Net Expenditure £000	Statement of Financial Position £000	Statement of Changes in Equity £000
Accounting for investment originally expensed (*identified by management*) Dr Investments Cr Expenditure Dr Impairment (Expenditure) Cr Investment	 - (20) 20 -	 20 - - (20)	 - - - -
PPE valuation adjustment Dr Fixed assets Dr Impairment charge Cr Reserves	 - 105 -	 1,085 - -	 - - (1,190)
Reallocation of liabilities from trade creditors to accruals (Action point 2) Dr Trade Creditors Cr Accruals	 - -	 48 (48)	 - -
Reallocation of liabilities Dr Accruals Cr Trade Creditors	 - -	 265 (265)	 - -
Prior period adjustment to revaluation Dr Revaluation reserve Cr General fund	 - -	 **-** -	 298 (298)
Total	**105**	**1,085**	**(1,190)**

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. There were no material disclosure misstatements. Management have streamlined a number of disclosures following discussions around the draft accounts.

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	**Fixed Asset Valuation**	The Authority's accounting policy for property assets did not ensure that the carrying value of assets was not materially different from their current (fair) value on an annual basis. An interim valuation was instructed following discussions to ensure that the values were not misstated in the accounts and this resulted in a material adjustment to the accounts. This risk may re-occur in future years unless the appropriate action is taken annually.	High	Carry out an annual valuation assessment of property, plant and equipment to ensure the carrying value of assets are not materially different from their current value, supported by the appropriate external valuer input. **Management response:** In order to ensure that the carrying value of assets are not materially different from their current value we will carry out a full professional revaluation quinquennially, supported by an interim professional valuation in year 3 and confirmation from a professional valuer in years 1, 2 and 4 advising the valuations would not have materially changed since the previous Year 3 or Year 5 valuations. Where there are any material asset changes in individual assets this would necessitate the requirement for a full professional valuation of those specific assets or asset group. **Timescale:** May 2018 **Action Owner:** Financial Performance Manager
2	**Creditors/ Accruals**	The classification of accruals and trade creditors must be reviewed.	Low	Ensure that all invoices received post year-end are classified as accruals rather than trade creditors. **Management response:** Agreed **Timescale:** May 2018 **Action Owner:** Finance & Procurement Manager
3	**Fixed asset register**	The fixed asset register contains a significant number of older assets and as a result the cost and accumulated depreciation elements may be overstated (net book value is correct). Management are already aware of this issue and highlighted this during the year as part of Audit Committee discussions.	Medium	Review the fixed asset register and remove all historic assets no longer held. **Management response:** Agreed **Timescale:** December 2017 (in line with agreed operational plan and existing internal audit actions) **Action Owner:** Financial Performance Manager

Appendix 3 Follow up on prior year recommendations

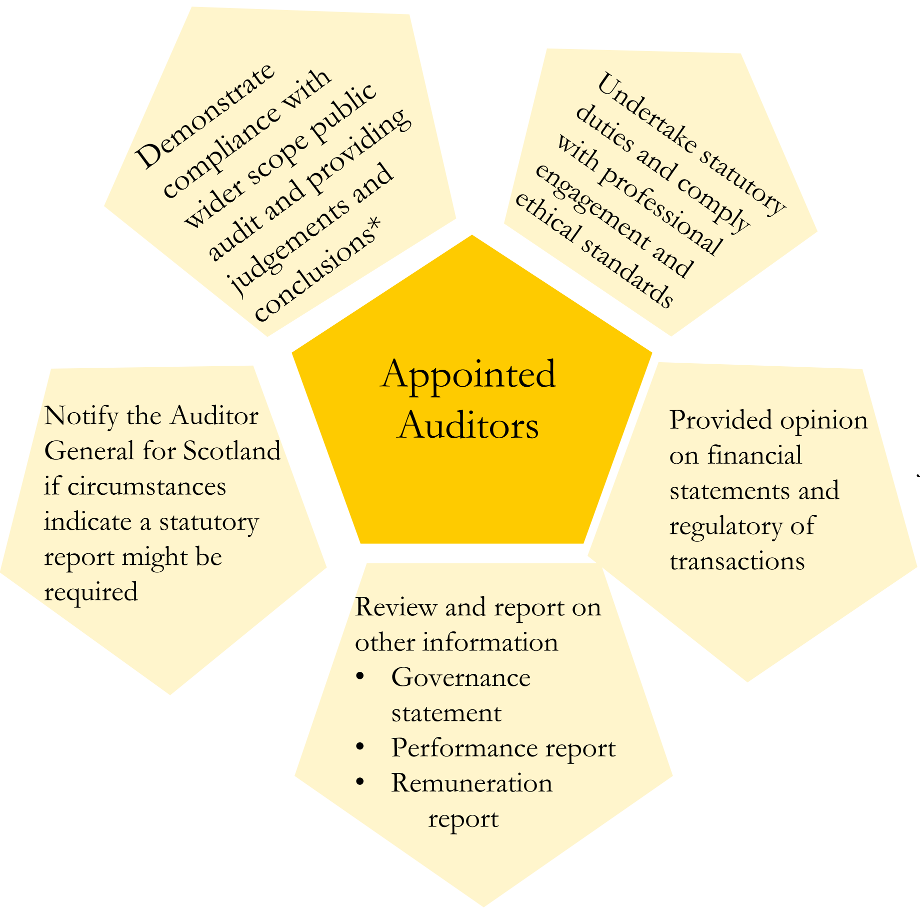
We have undertaken a follow up of outstanding recommendations from prior years raised by the previous external auditors, Audit Scotland. The results of our work are outlined below:

Prior year finding	Action in 2016/17	Status
Ownership of assets Issue: Management are in negotiations with the landowners to rectify an error in the lease of land at Milarochy Bay Visitor Centre and Balmaha Path. Recommendation: The Park Authority should ensure they obtain variations to the lease of land that the assets are built on.	Negotiations are continuing with landowners in relation to Milarrochy Visitor Centre and Balmaha Path. Both are expected to be satisfactorily resolved by December 2017.	Amber
Workforce Plan Issue: The Park Authority do not currently have an organisation-wide workforce plan. Recommendation: The Park Authority should develop a workforce plan that is proportionate to its size and nature.	The HR Manager has started to prepare the workforce plan and this is expected to be complete by December 2017.	Amber

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.



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

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 ISAs 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 with the exception of the attempted banking issue which arose in the year.

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