



# **Loch Lomond and The Trossachs National Park Authority**

## **Annual Audit Plan 2014/15**

**Prepared for Loch Lomond and The Trossachs National Park  
Authority**

**February 2015**

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Summary

## Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement and irregularity in Loch Lomond and The Trossachs National Park Authority's ("LLTNPA" or "the Park Authority") financial statements.
2. This report summarises the key challenges and risks facing the Park Authority and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
  - the risks and priorities facing LLTNPA
  - current national risks that are relevant to local circumstances
  - the impact of changing international auditing and accounting standards
  - our responsibilities under the Code of Audit Practice ("the Code") as approved by the Auditor General for Scotland
  - issues brought forward from previous audit reports.

## Summary of planned audit activity

3. Our planned audit work in 2014/15 includes:
  - an audit of the financial statements and provision of an opinion on whether:
    - they give a true and fair view of the state of affairs of the Park Authority
    - the expenditure and income for the year were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers
    - the accounts have been properly prepared in accordance with the National Parks (Scotland) Act 2000 and directions made by Scottish Ministers.
  - a review and assessment of LLTNPA's governance and performance arrangements in a number of key areas including review of the adequacy of Internal Audit and the governance statement.

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# Responsibilities

4. The audit of the financial statements does not relieve the Accountable Officer, management or the Audit Committee, as the body charged with governance, of their responsibilities.

## Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

## Responsibility of the Accountable Officer

7. It is the responsibility of the Park Authority and the Accountable Officer (appointed by Scottish Ministers), to prepare the financial statements in accordance with the National Parks (Scotland) Act 2000 and directions issued by Scottish Ministers. This means:

- acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
- maintaining proper accounting records
- preparing financial statements timeously which give a true and fair view of the financial position of LLTNPA as at 31 March 2015 and its expenditure and income for the year then ended
- preparing an annual report, including management commentary, strategic report and remuneration report.

## Format of the accounts

8. The financial statements should be prepared in accordance with the 2014/15 Government Financial Reporting Manual ("FReM") and Accounts Directions signed by Scottish Ministers. The FReM sets out the principles applicable to the accounting and disclosure requirements for the annual report and accounts which bodies covered by resource accounting are required to prepare annually.

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# Audit Approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of LLTNPA. We also consider the key audit risks and challenges in the central government sector generally. This approach includes:

- understanding the business of the Park Authority and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how LLTNPA will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

10. We have also considered the sources of assurance which will make best use of our resources and allow us to focus audit

testing on higher risk areas of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2014/15 includes:

- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
- clear responsibilities for provision of accounts and working papers being agreed
- delivery of unaudited accounts to agreed timescales with a comprehensive working papers package.

11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by KPMG LLP.

12. We plan to place formal reliance on the work of internal audit in the payroll and pensions administration to support our audit opinion on the financial statements.

13. In respect of our wider Code of Audit Practice responsibilities we also plan to review the findings and consider other areas of Internal Audit's work including records management and project management.

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## Materiality

14. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. Based on our knowledge and understanding of LLTNPA we have set our planning materiality at 1% of gross expenditure. For 2014/15, planning materiality is £85,000. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:
  - extent of estimation and judgement within the financial statements
  - nature and extent of prior year misstatements
  - extent of audit testing coverage.
16. For 2014/15 performance materiality has been set at £60,000. We will report, to those charged with governance, all misstatements greater than £1,000.
17. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the

event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

## Reporting arrangements

18. To support the efficient use of resources it is critical that a timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned Audit Committee dates.

### Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing of internal control systems and transactions	w/c 19 January 2015
Interim Report to Audit Committee	10 March 2014
Latest submission of unaudited financial statements with complete working papers package	18 May 2015
Progress meetings with officers on emerging issues	As required during the audit.
Latest date for final clearance meeting with Finance and Performance Manager and Director of Corporate Services	29 May 2015
Issue of ISA260 Report and agreement of unsigned financial statement for Audit Committee agenda	12 June 2015
Audit Committee date	23 June 2015
Independent auditor's report signed	23 June 2015
Final deadline for issue of Annual Report to the Accountable Officer and the Auditor General for Scotland	30 November 2015

19. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant senior manager to confirm

factual accuracy. Responses to draft reports are expected within one week of submission. A copy of all final agreed reports will be sent to the Chief Executive / Accountable Officer, Director of Corporate Services, Finance and Performance Manager, Internal Audit and the Auditor General's office.

20. We will provide an independent auditor's report to the Park Authority and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.
21. All annual reports produced by Audit Scotland are published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) after the financial statements have been laid before Parliament.
22. Planned outputs for 2014/15 are summarised at Appendix I.

### Quality control

23. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent



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auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

24. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Asif A. Haseeb.

## Independence and objectivity

25. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The

arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

26. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of LLTNPA.

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# Audit issues and risks

27. Based on our discussions with management, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the Park Authority.
28. **Income:** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. LLTNPA receive the majority of funding from the Scottish Government in Grant in Aid ("GIA"), however in 2013/14 £830,000 was received from other sources, including planning fees, programme income and business plan income. The extent and complexity of non-GIA income means there is an inherent risk that income could be materially misstated. We will perform controls testing of the trade receivables system and additionally perform substantive testing of non-GIA income.
29. **Management Override of Controls:** ISA240 - The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements states that: 'Management otherwise appear to be operating effectively. Although the level of risk of management

override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.'

30. Given this inherent risk affects all financial statements we are required to undertake relevant audit procedures to gain assurance that no override of controls has occurred. These include detailed testing of journal entries, review of accounting estimates and evaluation of any significant transactions that are outside the normal course of business.
31. **New Chief Executive:** The Chief Executive and Accountable Officer, Fiona Logan, left LLTNPA in mid-January 2015. Gordon Watson, the existing Director of Operations, was appointed as her replacement.
32. Senior management changes in any organisation present a key risk to its operations. This risk is mitigated as the new Chief Executive is a senior officer within LLTNPA, familiar with the operations of the organisation and aware of the challenges facing the business. However, It is important that the necessary assurances are provided to the incoming Chief Executive and Accountable Officer to allow him to sign the governance statement included in the 2014/15 accounts.
33. **Contingent Liability:** The Park Authority is defending an ongoing legal case. This has been appealed to the Inner House of the Court of Session. There is the potential for an

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increase in legal costs, which may pose a risk of overspending the Park Authority's budget. If this case is ongoing at year-end, LLTNPA may need to include a provision or a contingent liability for this case.

- 34. Capitalisation of Staff Time:** The Park Authority proposes to capitalise staff time. There is a risk that LLTNPA does not correctly capitalise staff costs. Management will require to provide evidence of staff time engaged on capital projects to support any proposed capitalisation of staff time. We will substantively test this at the financial statements audit.
- 35. Approval of severance, early retirement and redundancy terms:** The Scottish Government has announced a recent amendment to the Scottish Public Finance Manual. The section on Severance, Early Retirement and Redundancy Terms has been expanded to cover settlement agreements. This refers to any binding agreement between an employer and an employee to settle an employee dispute. These normally relate to the termination of employment, but can also be used to settle disputes during employment. Central government bodies are required to consult with the Scottish Government before offering or entering into any settlement agreement, by submitting a business case.
- 36. Scotgold Contingent Asset:** In our 2013/14 Annual Audit Plan, we noted that LLTNPA disclosed a contingent asset in its 2013/14 accounts for three monetary bonds totalling £1.332

million. These will be held as security by the Park Authority to ensure that Scotgold fully reinstates the development site at the end of the mining operation. Should Scotgold fail to reinstate the land, the Park Authority would use the bonds to undertake the reinstatement work. The Park Authority does not yet hold these bonds as the planning application is progressing. Management should ensure that, if they are required to reinstate the land, sufficient funds are available.

- 37. Best Value:** The Park Authority has not undertaken a formal review of its Best Value work. Management have advised that they will undertake a mapping exercise to cross-match the Best Value guidelines to areas of work that LLTNPA currently undertakes. We will report progress in this area in our Annual Audit Report.
- 38. IT Policy:** The Park Authority does not have a formal IT Policy. We understand that management are currently developing an IT Policy, which is expected to be completed during 2015/16. We will monitor progress in this area and report our findings in our Annual Audit Report.

## Significant audit risks

- 39.** Within these identified risk areas there is a range of more specific audit risks and these are summarised at Appendix II.

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# Fees and resources

## Audit fee

40. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.
41. In determining the audit fee we have taken account of the risk exposure of LLTNPA, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by Monday 18 May 2015.
42. The agreed audit fee for the 2014/15 audit of LLTNPA is £10,200. Our fee covers:
  - the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees

- your organisation's allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

43. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Audit team

44. Asif A. Haseeb is your appointed auditor. The local audit team will be led by Kevin Boyle who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

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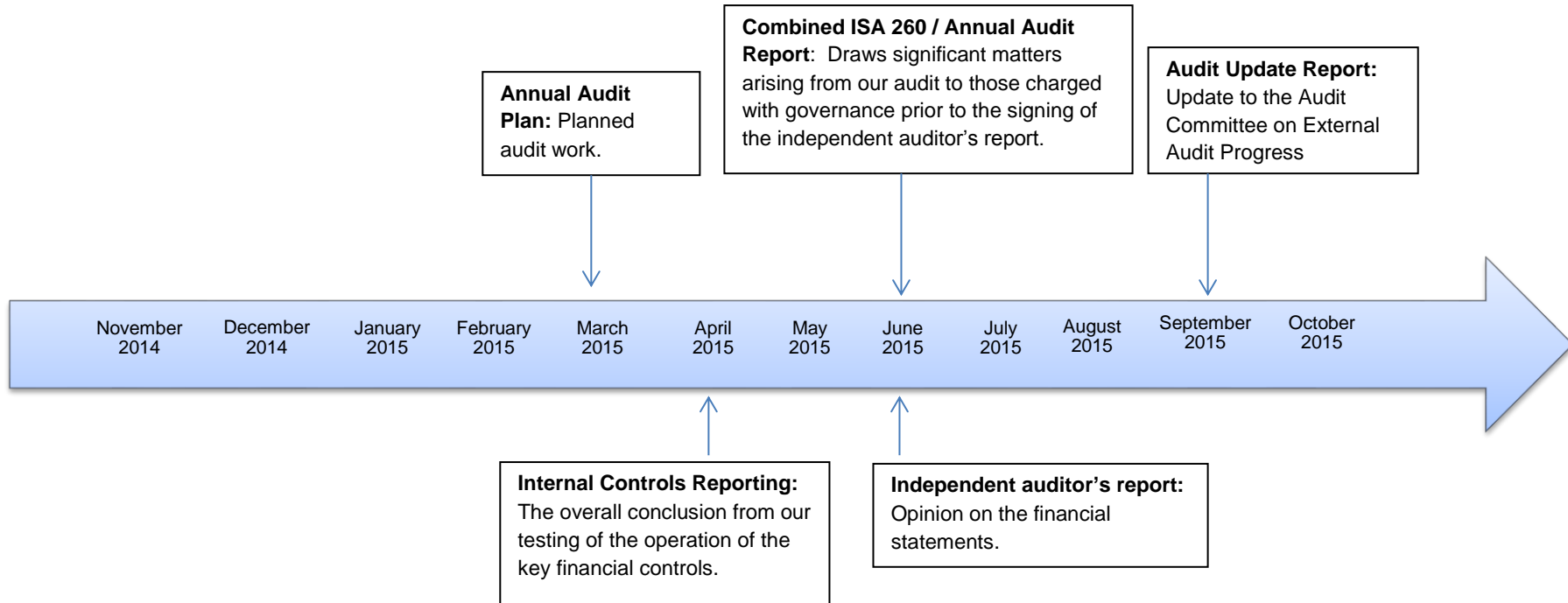
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**Exhibit 2: Audit team**

<b>Name</b>	<b>Experience</b>
<b>Asif A. Haseeb MBA, ACMA</b> <i>Engagement Lead</i>	Asif took up his post as senior audit manager in October 2001. Before joining Audit Scotland, he was the chief auditor in a Scottish Council. Asif has 21 years of public sector audit experience and substantial financial management and board level experience in the public sector gained through non-executive membership of various boards (currently member of Court of the University of the West of Scotland). He is also a Justice of the Peace (lay magistrate).
<b>Kevin Boyle LLB (Hons)</b> <b>DipLP CA</b> <i>Lead Auditor</i>	Kevin joined Audit Scotland in February 2011 and has worked on the audits of central and local government clients during this time. He has recently qualified as a chartered accountant. Prior to joining Audit Scotland, Kevin studied law at the University of Strathclyde before training as a solicitor.
<b>David Docherty LLB (Hons)</b> <i>Auditor (Professional Trainee)</i>	David holds an Honours degree in Law from the University of Glasgow and joined Audit Scotland as an ICAS professional trainee in 2012.

# Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for LLTNPA in 2014/15.



# Appendix II: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

Audit Risk	Source of assurance	Assurance procedure
<p><b>New Chief Executive</b></p> <p>The Chief Executive and Accountable Officer left LLTNPA in mid-January 2015 and was replaced by Gordon Watson, Director of Operations. Although he is an experienced officer, senior management changes in any organisation present a key risk to its operations. It is important that the necessary assurances are provided to the incoming Chief Executive to allow him to sign the governance statement included in the 2014/15 accounts.</p>	<ul style="list-style-type: none"> <li>To mitigate this risk, a transition plan will be implemented to outline the roles and responsibilities of the clarity of roles and responsibilities/ key events/communications/ handover/ induction programme considering the potential ripple effect throughout/outwith the organisation.</li> <li>The Governance Manager, with assistance from the Finance &amp; Performance Manager, is preparing an 'Accountable Officer Pack' to outline the roles and responsibilities of the Accountable Officer and this will be discussed with CEO prior to year end. The Finance &amp; Performance Manager will also meet with the CEO before year end to review the prior year accounts and ensure that all necessary assurance is provided so that the current year accounts may be signed in a timely manner.</li> </ul>	<ul style="list-style-type: none"> <li>At year-end, we will review the procedures that are in place to give the new Chief Executive assurance over the 2014/15 accounts, to enable him/her to sign the accounts.</li> </ul>

Audit Risk	Source of assurance	Assurance procedure
<p><b>Capitalisation of Staff Time</b></p> <p>The Park Authority proposes to capitalise staff time. There is a risk that LLTNPA does not correctly capitalise staff costs. LLTNPA will require to provide evidence of staff time engaged on capital projects to support any proposed capitalisation of staff time. We will substantively test this at the financial statements audit.</p>	<ul style="list-style-type: none"> <li>• LLTNPA will keep records of time engaged in capital projects by its staff. It will provide working papers at year-end to support the capitalisation of staff costs.</li> </ul>	<ul style="list-style-type: none"> <li>• We will substantively test the capitalisation of staff costs.</li> </ul>
<p><b>Identification and Assessment of the Risks of Material Misstatement Due to Fraud in revenue recognition</b></p> <p>Based on the material levels of income collected by the audited body (2013/14 £830,000), there is a presumption that there are risks of fraud in revenue recognition.</p>	<ul style="list-style-type: none"> <li>• The Park Authority has adequate controls over its income to prevent fraud.</li> </ul>	<ul style="list-style-type: none"> <li>• We will perform controls testing over the trade receivables system to confirm that the procedures over revenue recognition are working effectively.</li> </ul>



Audit Risk	Source of assurance	Assurance procedure
<p><b>Approval of severance, early retirement and redundancy terms</b></p> <p>The Scottish Government has announced a recent amendment to the Scottish Public Finance Manual. Central government bodies are required to consult with the Scottish Government before offering or entering into any settlement agreement, by submitting a business case.</p> <p>There is a risk that the Park Authority does not comply with the revised requirements of the SPFM.</p>	<ul style="list-style-type: none"> <li>The Park Authority consults with the Scottish Government on all severance, early retirement and redundancy terms, and receives approval before entering into these.</li> </ul>	<ul style="list-style-type: none"> <li>We will obtain relevant supporting documentation for any redundancy or compensation for loss of office payments made during the year as part of the 2014/15 financial statements audit. We will review these to ensure they comply with the revised SPFM.</li> </ul>
<p><b>Risk of management override of control</b></p> <p>Management has the ability to override controls.</p> <p>There is an inherent risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Evaluation of any significant transactions that are outside the normal course of business.</li> </ul>