

Appendix C

Loch Lomond and The Trossachs National Park Authority

Proposed annual report on the 2013/14 audit



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

25 June 2014

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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Key Messages

2013/14

We have given an unqualified opinion that the financial statements of Loch Lomond and The Trossachs National Park Authority (the Park Authority or LLTTNPA) for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

LLTTNPA's gross expenditure for 2013/14 was £10.471 million (2012/13 - £9.825 million). The most significant elements were board members and staff costs of £4.721 million, business plan expenditure of £1.878 million, of which £1.177 million was spent on the 'visitor experience' segment, and other operating costs of £1.525 million. After £8.450 million of total grant-in-aid received, other income of £0.801m and interest received of £0.002m, the 2013/14 financial statements show a deficit of £1.218 million.

This deficit figure includes grant-in-aid transferred for the purchase of non-current assets (£1.393 million) and some additional significant non-cash items of expenditure (£2.562 million). This includes depreciation (£0.404 million), impairment on non-current assets (£1.930 million), loss on disposal of non-current asset (£0.042 million) and pension related costs (£0.186 million). Removing these balances from the deficit of £1.218 million, the Park Authority shows net expenditure of £0.049 million at 31 March 2014.

Overall the Park Authority's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our review of the key controls within the main financial systems, we concluded that the systems of internal control are operating effectively.

Outlook

We confirm the financial sustainability of the Park Authority on the basis of its financial position. The financial position going forward is becoming more challenging than previous years with limited increases in funding coupled with increasing cost pressures. This represents a major issue for the Park Authority and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage. The significant financial challenges will make maintaining or improving on the performance targets set by the Scottish Government even more difficult.

The Park Authority's arrangements for budget setting and monitoring are sound. However, the Park Authority should continue to plan for the longer term to ensure it is best placed for any financial challenges faced.

Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of the Park Authority. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management. However this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Park Authority and no responsibility to any third party is accepted.
3. Appendix 1 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. Board Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report will be published on our website after consideration by the Board and after the financial statements have been laid before parliament.
5. The management of the Park Authority is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. 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.

Financial statements

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 4th March 2014, 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 2013/14 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 Park Authority for 2013/14 give a true and fair view of the state of the Park Authority's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 24 June 2014.
9. We received the unaudited financial statements on 21 May 2014, one day ahead of the agreed timetable. The working papers were of a high standard and officers provided excellent support to the audit team which enabled us to complete our on-site fieldwork by the planned target date of 30 May 2014.
10. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. There were no unadjusted monetary errors identified during the course of the audit.
11. LL&TTNPA is required to follow the 2013/14 FReM and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Financial position

2013/14 Outturn

12. The main financial objective for LLTTNPA is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
13. The Park Authority operated within the resource budgets for 2013/14, as detailed in Table 1.

Table 1: Resource Budget

	Initial Allocation (£m)	Actual Outturn (£m)	Under / (Over) spend
Resource DEL	6.498	6.503	(0.005)
Capital DEL	1.952	1.947	0.005
Total	8.450	8.450	0.000
Non-cash DEL	0.774	0.435	0.339

Source: Loch Lomond & The Trossachs National Park Authority 2013/14 Report and Accounts

2013/14 Financial position

14. LLTTNPA's gross expenditure for 2013/14 was £10.471 million (2012/13 - £9.825 million). The most significant elements were board members and staff costs of £4.721 million, business plan expenditure of £1.878 million, of which £1.177 million was spent on the 'visitor experience' segment, and other operating costs of £1.525 million. After £8.450 million of total grant-in-aid received, other income of £0.801m and interest received of £0.002m, the 2013/14 financial statements show a deficit of £1.218 million.
15. This deficit figure includes grant-in-aid transferred for the purchase of non-current assets (£1.393 million) and some additional significant non-cash items of expenditure (£2.562 million). This includes depreciation (£0.404 million), impairment on non-current assets (£1.930 million), loss on disposal of non-current asset (£0.042 million) and pension related costs (£0.186 million). Removing these balances from the deficit of £1.218 million, the Park Authority show net expenditure of £0.049 million at 31 March 2014.
16. The Park Authority undertook its quinquennial asset revaluation in 2013/14. This resulted in an impairment of £1.930 million being charged to the Statement of Comprehensive Net Expenditure. The impairment was in relation to the Park Authority's headquarters in Balloch and Loch Lubnaig. Overall, the valuation resulted in an increase of £ 0.813 million for the net book value of the Park Authority's assets.
17. As at 31 March 2014, the Park Authority's Statement of Financial Position shows an increase in total equity of £0.703 million. This can be attributed to the various movements in the assets and liabilities. In particular, the revaluation reserve has increased by £2.286 million as a result of the valuation exercise. This is offset by a decrease in the General Reserve and increase in the Pension Reserve.

Financial planning

18. LLTTNPA has a one year operational and budget plan, providing an indicative budget for 2014/15 based on relatively stable grant-in-aid provision set within the context of the final year outline budget within the 2012 to 2017 Corporate Plan.

19. 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.
20. As per the Board approved 2014/15 budget, proposed Grant-in-Aid funding allocated to the Park Authority for 2014/15 is £7.565 million, including capital grant-in-aid of £1.167 million. This was a 10% reduction on 2013/14 (£8.450 million) and largely relates to the supplementary capital grant-in-aid received in 2013/14 of £0.685 million. The total income is forecast at £8.416 million, comprising the grant-in-aid allocation, planning fees (£0.210 million), project income (£0.261 million) and income from other sources of £0.380 million. A reduction in planning fee income and project income also contribute to the overall decrease in projected income.
21. The 2014/15 Park Authority budget proposals present a planned deficit of £0.101 million. As in previous years, the budget deficit includes a degree of over programming to allow for any slippages in project development and delivery and to ensure that a bank of projects was ready should additional funding become available during the financial year.
22. The main area where the budget has increased significantly (by £0.363 million) is staff costs. This is primarily the full year impact of posts recruited in 2013/14 and vacancies from 2013/14, which are now filled, being budgeted for within 2014/15. The majority of these posts are fixed term. The staff costs budget also allows for progression of the commercialisation strategy. Another significant element of the increase in staff costs for 2014/15 is the annual pay award. The Park Authority has submitted its 2014/15 and 2015/16 proposal which complies with Scottish Government's public sector pay policy.
23. The Park Authority aim for a balanced budget and therefore given lower income forecast, areas of expenditure are budgeted to decrease. Project expenditure is budgeted to decrease by approximately £1.6 million in 2014/15. Reductions which contribute to this include, costs previously shown in project expenditure are now shown within operational costs, shovel ready funding received in 13/14 which is not budgeted for in 2014/15 and lower income from Grant-in-aid and other sources.
24. The Park Authority currently has detailed financial plans in place for 2014/15. Going forward, no formal and detailed budget plans have been established beyond this period. The 2012 to 2017 Corporate Plan contains detailed financial plans until March 2015, in line with the Scottish Government Spending Review. The 2014/15 budget approved by the Board includes forecasts for resource and capital grant-in-aid to 2015/16. The Park Authority should continue to plan for the longer term and develop detailed plans to support this.

Action point 1

Contingent Asset

25. The Park Authority disclosed a contingent asset in the 2013/14 accounts for three monetary bonds totalling £1.332 million. Scotgold Resources Limited submitted a planning application

for the development of a gold and silver mine in Cononish Glen. As a condition of the planning application being successful, Scotgold Resources Limited must fully reinstate the development site at the end of the mining operating period of ten years. In order to ensure this is done, Scotgold Resources Limited have lodged bonds of £1.332 million which will become receivable by the Authority if they fail to reinstate the land. In this case, the 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.

Action point 2

Corporate governance, systems of internal control and use of resources

Overall governance arrangements

26. The three fundamental principles of corporate governance- openness, integrity and accountability- apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
27. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Park Authority had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance.

Processes and committees

28. The LLTTNPA Board currently has 17 members including the Convener. It comprises those who are directly appointed by Scottish Ministers, those locally elected and those nominated to the Board by the five councils in the park area.
29. The Authority has two committees in operation which are required to meet regularly throughout the year, namely the Audit committee and the Planning and Access committee. The Authority has other groups in operation, these include the Local Access Forum, the Planning Forum, the Local Review Body, Strategy Committee and Delivery Group.
30. The Audit Committee has the direct responsibility for overseeing the Park Authority's arrangements for corporate governance and provides the Accountable Officer with assurance as to the Park Authority's compliance. The committee considers all internal and external audit reports and ensures any issues raised are addressed.

Accounting and internal control systems

31. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
32. During 2013/14 we carried out a review of the main financial systems (general ledger, trade payables, trade receivables, cash income and banking and payroll), focusing on the key controls in place within each system.
33. 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 2014 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 2013/14 financial statements. We identified a small number of minor issues which management agreed to rectify.

34. 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.
35. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including aspects of the trade payables and trade receivables systems.
36. We were able to place reliance on their work in terms of paragraph 28 of Audit Scotland's Code of Audit Practice, which addresses the wider scope of public audit areas, in the following:
 - regulatory compliance
 - financial management, planning & efficiencies.

This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

Prevention and detection of fraud and irregularity

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

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

38. 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.

Shared Services

39. LL&TTNPA continues to work with Cairngorms National Park Authority on progressing shared services. The two park authorities currently work together on procurement, IT services, Geographic Information Systems (GIS) and health and safety. The Internal Audit function is provided by KPMG (LLP) to both Park Authorities. The Corporate Services Director role was previously shared between the two organisations. This came to an end in early 2013/14, with

a Director now in position at each authority. In addition, the shared Internal Audit contract is coming to an end. However it is expected that this will be extended for another year. The Park Authorities hold regular meetings to monitor progress and to discuss options for shared services going forward. LL&TTNPA should ensure that where appropriate and effective, shared services are considered for service delivery.

Best Value

40. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.
41. 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. In 2011/12 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, as reported in the 2012/13 Annual Audit Report a detailed self-assessment had not yet been performed and a formal policy on best value not yet developed. We have since been advised that this work has not progressed as yet due to staff changes and conflicting priorities. The Park Authority will consider the guidance in full and develop a policy for approval by the Audit Committee with a revised target date for 31 March 2015.

Action Point 3

Acknowledgements

42. We would like to express our thanks to the staff and Members of the Park Authority for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix 1: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Issue	Planned Management Action	Responsible Officer	Target Date
1	24	<p>Financial Planning</p> <p>The Park Authority currently has financial plans in place for 2014/15. This is in line with the financial plans in the Corporate Plan 2012 to 2017, which are prepared to March 2015, the end of the last Scottish Government Spending Review. However, there are no detailed financial plans prepared beyond this period.</p> <p>Management should continue to plan for the longer term.</p>	<p>Management had a teleconference on 12 June with the Scottish Government Sponsor department and confirmed that the proposed budget for 2015/16, whilst not yet approved by the Scottish Government, should be considered as the basis of LLTNPA plans for the next financial year (2015/16). It was agreed that further information on the budgets for future years would be considered after the referendum in September 2014.</p> <p>Management's view on planning for the future is that current levels of financial support will continue and we will prepare plans for the Authority on this basis.</p>	Director of Corporate Services	Review status in September 2014 and ongoing.
2	25	<p>Contingent Asset</p> <p>The Park Authority will hold contingent assets for three monetary bonds totalling £1.332 million. These are in</p>	<p>The Director of Operations is aware of this issue and he will continue to monitor the planning application to ensure that the value of</p>	Director of Operations	Ongoing

Action Point	Refer Para No	Issue	Planned Management Action	Responsible Officer	Target Date
		relation to Scotgold Resource Limited who have submitted a planning application for the development of a gold and silver mine in Cononish Glen. Scotgold Resource Limited are required to reinstate the land at the end of the 10 period, if not the Park Authority will use the bonds to reinstate the land. Management should ensure the value of the bonds is sufficient to cover the cost of reinstating the land.	the bonds is sufficient to cover the cost of reinstating the land.		
3	41	<p>Best Value</p> <p>In 2011/12 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 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. In our 2012/13 Annual Audit Report we reported that a detailed self-assessment had not yet been performed and a formal policy on best value not yet developed.</p>	LLTNPA met with CNPA on 10 June to discuss shared services. The Director of Corporate Services of CNPA will share the CNPA best value documentation so that LLTNPA may learn from their experiences and progress our review of the best value guidance, the self-assessment and development of a formal policy for approval by the Audit Committee.	Finance and Performance Manager	31 March 2015

Action Point	Refer Para No	Issue	Planned Management Action	Responsible Officer	Target Date
		Management have agreed to consider the guidance in full and develop a policy for approval by the Audit Committee with a revised target date for 31 March 2015.			