



# Loch Lomond and the Trossachs National Park Authority – Draft

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**External Audit Annual Report to the Board and the Auditor General for Scotland for the financial year ended 31 March 2018**

Audit and Risk Committee 26 June 2018

**Joanne Brown**  
Engagement Leader

**John Boyd**  
Senior Manager



# Our audit at a glance



We have fulfilled our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Accountable Officer and the Auditor General for Scotland concludes our work.



Materiality was set at 2% of gross expenditure within our plan, and was updated to reflect the draft financial statements. There were two adjustments to the draft financial statements identified by management. These are detailed in appendix 1.



Significant audit risks were: management override of controls; and the risk of fraud in revenue and expenditure recognition as set out in International Auditing Standards (ISAs UK) and practice note 10. Our risk assessment remained unchanged and we did not identify any adjustments in these two areas in our work.

## An audit underpinned by quality



We have built on our relationship with Authority management during the year and this has ensured an efficient audit process to allow for the audit to be concluded by the end of June 2018.



Our work was undertaken in accordance with our agreed timetable. The draft financial statements produced by management were of a high standard with complete information and good supporting working papers. We thank management for their support and assistance during our work



A wider scope audit for the Authority, as set out in our plan, was considered not appropriate. However we have considered your financial planning arrangements and governance. The organisation faces financial challenges in delivering its strategic objectives and we recommend that a financial strategy / scenarios are developed to support the delivery of these.

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## Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards of Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of the Authority's arrangements, sharing relevant practices with the Audit and Risk Committee and Management.

We have continued to build on our working relationship with management and our understanding of the Authority as an organisation. During the year we have shared relevant publications with management, in particular from Audit Scotland, and also supported with any technical queries. We flexed our year-end financial statements timetable this year to ensure that the Authority would have complete information available from Scottish Government to include the payroll accruals.

During the course of the year we provided support to management through reviewing more complex accounting areas including valuation of property, plant and equipment and the accounting treatment for the Gateway centre in advance of our year end audit. This ensured Management had an agreed approach to the recognition of these in the financial statements.

# Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

In accordance with our reporting responsibilities our report is jointly addressed to the Board and the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

Our report was presented as a draft to the Audit and Risk Committee on the 26<sup>th</sup> June. Once all outstanding matters are complete the report will be updated and finalised.

We would like to thank the Authority management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

## Structure of this report

As set out in our Audit Plan (March 2018) we consider in accordance with the Audit Scotland Code of Practice that the Authority is a smaller body. Therefore full wider scope is not appropriate. Our report concludes on our financial statements audit and certain aspects of the Authority's arrangements as follows:

Financial statements – Section 2 and Appendix 1

Financial and governance arrangements – Section 2



## Our Opinion (subject to finalisation of the outstanding information)

For the financial year ended 31 March 2018 we have issued an **unqualified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of the Authority
- Other prescribed matters (which include the audited information in the remuneration report)



## Status of the audit as at 19 June 2018

Our audit is substantially complete with the exception of the following:

- Conclusion and subsequent events procedures
- Engagement Leader review
- Letter of representation



## The audit process

We received a complete set of financial statements including the performance report, strategic report and governance statement.

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers and the audit was efficient.

There were two adjustments to the draft financial statements, identified by management during the audit. We have no unadjusted differences to report to the Audit and Risk Committee. Minor disclosure enhancements have been reflected in the financial statements.

# The financial statements audit



Our audit work was completed in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed [we expect] to issue an unqualified audit opinion on the financial statements including:

- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Performance and Strategic report
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

## Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee in February 2018. As set out in our plan, our materiality calculations were based on the draft 2017/18 financial statements. Overall materiality has been set at £192,000 (2% of gross expenditure) and performance materiality is set at £144,000. (75% of materiality). We report to management any audit difference identified over £9,600 (Trivial as 5% of materiality).

We did not identify any additional significant audit risks from those identified in our audit plan. Our work completed in relation to the audit risks identified (management override of controls and risk of fraud in expenditure) is set out below.

## Internal control environment

During the year we sought to understand the Authority's overall control environment (design) as related to the financial statements. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures on key financial controls in particular journals, payroll and ledger controls

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive based in nature.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach, set out in our plan.

## Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of the West Dunbartonshire Council Internal Audit Service, the Authority's internal audit provider. We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted and all reports receiving substantive assurance.

The opinion of Internal Audit for the year was:

*"My overall opinion for the year from 1st April 2017 to 31st March 2018 is that Very Effective arrangements are in place in relation to the Park Authority's systems of governance, risk management and internal control".*

## Key audit issues

### Responding to significant risks

Within our annual external audit plan we identified significant audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our audit conclusions

#### Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue	Risk of fraud in expenditure	Management override of controls
The Risk	As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. Given grant-in-aid income is well forecast and agreed to funding letters we do not consider this to be of higher risk. Our presumed risk therefore focuses on operational plan and other income. We consider the risk to be prevalent around the year end and therefore focus our audit work on transactions around the year end	Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities.	As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. override of controls is present in all entities.
Our planned response	<ul style="list-style-type: none"> <li>Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate</li> <li>Agree income in year to supporting receipts/invoices/cash</li> <li>Consider income cut off procedures and substantive testing over pre and post year end balances</li> <li>A focus on recoverability of balances at the year end</li> </ul>	<ul style="list-style-type: none"> <li>Perform cut off at year end on pre and post year end transactions and recording</li> <li>Walkthrough of the key expenditure controls in place</li> <li>Regularity – Expenditure incurred in accordance with the type/nature of the Authority as an organisation</li> </ul>	<ul style="list-style-type: none"> <li>A focus on understanding how/where management override of controls may occur</li> <li>Review of the controls over journal entries</li> <li>Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies</li> <li>Reviewing unusual and/or significant transactions</li> </ul>
Conclusion	Appropriate assurance gained, through audit procedures performed, that revenue recognised by the Authority is free from material misstatements.	Based on our audit testing performed we are satisfied that revenue and expenditure is free from material misstatement. Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of the Authority (regularity).	Based on our testing we are satisfied that here was no evidence of management override or bias that would result in a material misstatement within the financial statements.

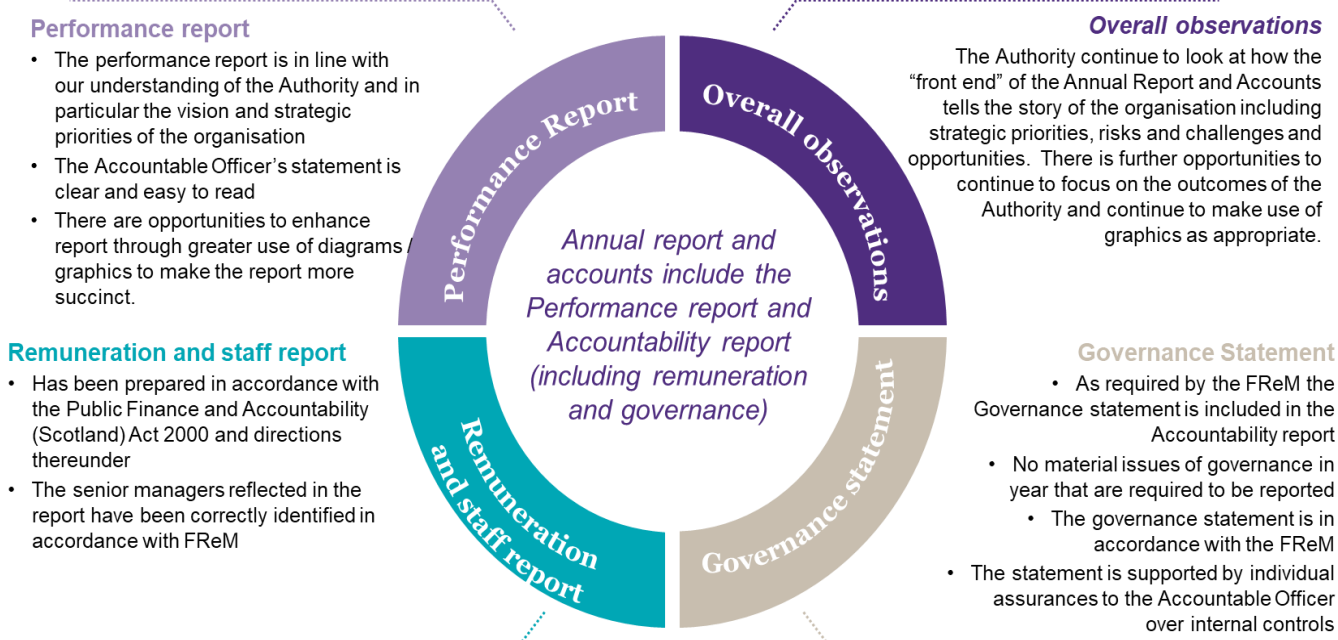
## Audit adjustments

We are pleased to report that there were no unadjusted audit differences.

During the course of our audit there were two adjustments to the draft financial statements presented for audit review identified by Management. Details of the adjustments are included in Appendix 1.

## Narrative elements of your annual 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. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.



The Authority's Annual Report has been prepared in accordance with applicable legislation and guidance. The information provided is not inconsistent with our knowledge and understanding of the Authority and financial information reported within the 'front end' is consistent with the financial statements. There are opportunities to continue to refine and enhance the Annual Report. Through greater use diagrams and graphics, information, such as performance, could be presented in a clearer more succinct manner.

## Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.



### Commentary:

The Authority's accounting policies are consistent with the FReM and are unchanged from prior year.

While a relatively small organisation, the Authority has a range of complex and subjective areas of accounting. We have considered the material areas below:

**Property, plant & equipment** – The Authority holds assets at fair value. For land and buildings this requires professional revaluation of assets held to ensure these are appropriately recognised in the accounts. During 2017/18, the Gateway centre went through significant refurbishment and subsequently leased out. The site was previously considered a specialised property, reflecting the limited usage of the space in its previous condition. The capital work during the year brought the asset into a condition that it had wider market appeal and use and therefore no longer considered a specialised property. Consequently, the valuation basis changed from depreciated replacement cost to market value based on rental income. This resulted in a downward revaluation in value, following professional valuation as at 31 March 2018. We are satisfied that the approach adopted by management is appropriate and assets are free from material misstatement. For other land and buildings, Management have reviewed these to ensure that they continue to reflect fair value as at the 31 March 2018, including, where applicable, application of suitable indexation to reflect movement in market value.

**Defined benefit obligations** - The Authority participates in the Strathclyde Pension Fund, a defined benefit pension scheme. In accordance with IAS 19, the Authority recognises the income, expenditure and their share of scheme assets and liabilities within the financial statements. The net defined benefit obligation is set through actuarial valuation. We have reviewed the Authority's accounting treatment for the defined benefit pension fund and underlying pension assumptions and are satisfied that these are in line with external experts guidance.

There are no adjusted post balance sheet events and ongoing legal cases have been appropriately reflected within the financial statements.

### Going concern

Finally the Authority, as set out in the performance and accountability reports, consider themselves a going concern. They have an agreed budget with the Scottish Government for 2018/19 and are satisfied that based on current forecast levels of Scottish Government grant funding, revenue from fees and charges, and other income streams, the organisation will continue to operate and meet its financial commitments for the foreseeable future.



# The Authority's financial and governance arrangements



## Openness and Transparency

The Authority is committed to openness and transparency. Board minutes and papers and committee minutes are published on the Authority's website. The Board meets publically four times a year and the Authority recognises the importance of continued engagement with the public through consultation and making information readily accessible.

We note that due to the timing of Board / Committee dates, the annual accounts were presented to the Board in advance of the Audit and Risk Committee. It is considered good practice that the Audit and Risk Committee would provide scrutiny of the financial statements for consideration by the Board. However we are satisfied that the arrangements do provide sufficient scrutiny of the financial statements.



## Financial Management

For 2017/18, the Authority underspent against its Revenue resource limit set by the Scottish Government by £67,000. While the Authority overspent against its capital limit by £180,000, primarily due to the capital expenditure across the Gateway centre during the year. This was approved by the Scottish Government.

Financial performance is monitored throughout the year by senior management and reported quarterly to the board. The authority continues to demonstrate reasonable financial management arrangements. The in year revenue performance was delivered through the delivery of £0.23 million of efficiency savings, through a combination of vacancy management (including internal reorganisation of staffing resources) and efficient use of estate to reduce operating cost.



## Financial Sustainability

The Authority's 2018/19 budget projects a small overspend of £61,000. The Authority anticipates receipt of an additional £0.25 million of revenue funding in 2018/19 taking the total funding to £6.52 million. However, the authority faces challenges in meeting its financial targets. The lifting of the Scottish Public sector pay cap will create additional financial pressures in 2018/19. In addition the potential impact of EU Withdrawal creates additional uncertainty and opportunity to the Authority.

Over the medium to longer term the Authority recognises the changing strategic context for the National Park Authority and in particular the transition to delivering the priorities set out in the new National Park Partnership Plan 2018-23 as well as relevant Scottish Government priorities.

The Authority continues to be reliant on Scottish Government funding. As a result, only one year budgets are prepared. We recognise that management have considered the medium to longer term financial outlook for the Authority and strategically, the Authority has recognised that potentially it may need to explore opportunities for generating further revenue to support the delivery of strategic objectives. While we acknowledge the level of uncertainty over Government Funding, we recommend that Management more explicitly review medium term financial projections and consider these with the board when shaping financial strategy.

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# Appendices

**Audit adjustments**

**Action plan and follow up of 2016/17 recommendations**

**Independence, fees and fraud responsibilities**

**Communication of audit matters with the those charged with governance**

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# Audit adjustments

## Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

There were a number of smaller adjustments to the draft accounts received for audit inspection. These were in relation to adjustments identified by Management following preparation of the accounts.

Item	Dr (£'000)	(Cr) (£'000)	Description
1	Project expenditure 13		<i>Being reclassification of operating costs to business plan costs</i>
	Other operating costs	(13)	
2	Other operating costs 29		<i>Being recognition of bad debt provision</i>
	Prepayments and accrued income	(29)	

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow the Audit and Risk Committee to evaluate the impact of these matters on the financial statements. There were no material/significant disclosure misstatements identified we wish to bring to your attention.

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# Action plan and follow up of 2016/17 external audit recommendations

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations we consider are of a higher risk to the Authority that Management may wish to consider in the future. We have also completed follow up of our 2016/17 recommendations and this is reflected below for information.

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## Recommendation

## Agreed management response

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### Financial scenarios

We recognise that management have considered the medium to longer term financial outlook for the Authority and strategically, the Authority has recognised that potentially it may need to explore opportunities for generating further revenue to support the delivery of strategic objectives. While we acknowledge the level of uncertainty over Government Funding, we recommend that Management more explicitly review medium term financial projections and consider these with the board when shaping financial strategy.

**Management response:** Agreed. The Authority will review medium term financial projections and consider these with the Board when shaping financial strategy. Action Owner Jaki Carnegie  
**Timescale for implementation :** 31 March 2019  
**Action owner:** Director of Corporate Services

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## Follow up of 2016/17 External Audit Recommendations

## Action as at May 2018

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### Fixed asset valuation

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.

### Complete

Management have used an external valuer to undertake a revaluation of certain classes of assets during the year. An evaluation of other items of property, plant and equipment has been undertaken, including consideration of market indices and condition of property, to ensure that assets are carried at the appropriate value at the year end.

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### Creditors / Accruals

Ensure that all invoices received post year-end are classified as accruals rather than trade creditors.

### Complete

Confirmed that there were no material issues identified in this area and that classification was appropriate within the financial statements.

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### Fixed asset register

Review the fixed asset register and remove all historic assets are no longer held.

### Ongoing

Due to the level of capital activity in year, including agreeing suitable approach to ensure assets are appropriately valued within the accounts a full evaluation of the fixed asset register did not take place. Management will continue to review the register and ensure that where appropriate, fully depreciated assets which are no longer held will be removed as a matter of course.

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# Fees, independence, fraud arrangements

## External Audit Fee

Service	Fees £
External Auditor Remuneration	8,390
Pooled Costs	2,040
Contribution to Audit Scotland costs	510
Contribution to Performance Audit and Best Value	0
<b>2017-18 Fee</b>	<b>10,940</b>

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £10,940

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

## Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at the Authority.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for the Authority this is assumed to be the Audit and Risk Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is [Loch Lomond & The Trossachs National Park Authority's](#) responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with the Authority to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
<b>We are independent of the Authority and have not identified any conflicts of interest</b>		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
<b>We have not incurred any non-audit fees during the year and no threats to independence identified</b>		
Significant matters in relation to going concern	•	•
<b>No significant going concern matters identified</b>		
Views about the qualitative aspects of the Authority accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
<b>Set out in the Financial statements Section</b>		
Significant findings from the audit		•
<b>No significant findings from our audit</b>		
Significant matters and issues arising during the audit and written representations that have been sought		•
<b>Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.</b>		
Significant difficulties encountered during the audit		•
<b>No difficulties encountered</b>		
Significant deficiencies in internal control identified during the audit		•
<b>None identified</b>		
Significant matters arising in connection with related parties		•
<b>None identified</b>		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
<b>None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.</b>		
Non-compliance with laws and regulations		•
<b>None noted</b>		
Unadjusted misstatements and material disclosure omissions		•
<b>None noted. Minor disclosure amendments only and these were not material in nature</b>		
Expected modifications to the auditor's report, or emphasis of matter		•
<b>None, an unqualified opinion</b>		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Authority Management and the Audit and Risk Committee.

