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*Cairngorms National Park Authority  
Review of Budgetary Control  
Internal Audit 2009/10*

*April 2010*

*Strictly Private and Confidential*

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## Section 1 - Executive summary

### 1.1 Introduction

This internal audit of budgetary control is part of our programme of core financial areas and is consistent with the audit plan approved by the Audit Committee. The scope of this report was agreed with the Head of Corporate Services prior to the commencement of work.

### 1.2 Background

Cairngorms National Park Authority (CNPA) has a budget of around £5.5m allocated to 2009/10 and the organisation is responsible for ensuring that funds are appropriately managed and discharged as part of any funding packages supported. In 2009/10, funding was split approximately 50:50 between Core (including Board, staff and office running) costs and Operational Plan spend (covering a total of seven Programmes, as well as Communication, Planning and Corporate Services budgets). Programmes invested in over 2009/10 are:

- Conserving and Enhancing Biodiversity and Landscapes;
- Integrating Public Support for Land Management;
- Supporting Sustainable Deer Management;
- Providing High Quality Opportunities for Outdoor Access;
- Making Tourism and Business More Sustainable;
- Making Housing More Affordable and Sustainable; and
- Raising Awareness and Understanding of the Park.

Per January management accounts, the 10 months to 31st January 2009 resulted in a surplus of £323k against a planned surplus of £60k (the £263k variance representing 6.9% of income).

The Head of Corporate Services is responsible for preparing an annual budget for consideration by the Finance Committee on behalf of the Authority. The budget setting process is split into two parts:

- Initial budget setting; and
- Mid-year budget review.

The process for initial annual budget starts with receipt of CNPA funding approval from the Scottish Government. At the end of February each year, the Operational Plan is agreed by the Management Team and budgets are put in place for the coming financial year. In March/April, the programme year profile is agreed between each Sponsoring Head of Group, Programme Manager and Finance Manager and finalised figures are presented to the Finance Committee.

## Section 1 - Executive summary (continued)

### 1.2 Background (continued)

During the year, the Head of Corporate Services is responsible for submitting revised budgets to the Finance Committee for consideration. Midyear review is instigated in October and it seeks to reassess the projected annual outcome in the light of actual spend for the first six months. As part of this, meetings are held with Programme Managers to establish expenditure requirements for the last six months of the year, which then also informs the mid-year budget review. Additional meetings with Programme Managers are held in the last two months of the year, to ensure budgets are appropriately utilised.

Monthly management reports are produced by the Finance Manager and circulated to members of the Management Team. Programme Managers are provided with monthly updates on their respective programme spend against budget (a monthly e-mail is sent to all managers informing them when the update is available). On request, additional information can also be supplied. Furthermore, the Finance Committee's remit includes monitoring income and expenditure during the year against budget and reporting to the Board. The Committee meets four times a year and reviews quarterly budget reports.

#### *Budget 2010/11*

CNPA has recognised that available levels of future public funding were likely to change as a result of the current economic climate, which may lead to a change in the level of Government grant in aid allocated to CNPA. CNPA management acknowledged the need to be flexible in its future financial planning and prioritised future activity to ensure adaptability in line with a range of possible funding levels: approach to budgeting and commitments has been reviewed and a system that allows activity to proceed at differing levels of priority in recognition of this has been built. This system prioritised 2010/11 activity in the first instance and activity has been allocated across a range of priority tiers in the Operational Plan (there are currently 5 tiers):

- Tier 1 represents activity that is a contractual or statutory commitment. This receives the highest priority as it is deemed unavoidable for planning purposes.
- Tier 2 represents activity that has been approved by the Board of CNPA but where no contractual commitment yet exists. This receives the second highest priority, as it should represent activity deemed most important to the organisation.
- Tier 3 represents activity deemed most important to Operational Plan programmes. Tier 3 will be constrained by the amount of budget deemed to be probable for planning purposes less the budgetary requirements of Tiers 1 & 2.
- Tiers 1-3 represent the base operational plan for 2010/11. Approval will be sought from Finance Committee to allow Programme Managers to proceed with this level of activity if there is any extended delay in the confirmation of future Grant in aid levels.
- Tiers 4-5 represent a division of remaining possible funding for 2010/11 up to the level of funding indicated in the 2008-2011 Corporate Plan. The intention here is for Programme Managers to further prioritise remaining planned activity in order for Management Team to allocate remaining budget in a suitably ranked order.

**Section 1 - Executive summary (continued)****1.3 Approach**

The overall objective of this internal audit will be to assess the key controls over budget setting, monitoring and reporting to provide management with assurance that the procedure and controls in place are operating effectively.

Our approach was to document the systems and procedures in operation of the annual appraisal process at CNPA through discussions with relevant staff and review of appropriate documentation. The key controls were then tested to determine their adequacy and effectiveness.

## Section 1 - Executive summary (continued)

### 1.4 Conclusion

The overall objective is to assess the controls in place for the following audit areas:

Audit areas	Overall Assessment	Report Ref.
There are procedures in place to guide the budget setting process and to aid budget holders in the management of available resources.	***	2.1
Budget holders formally accept their budgets on an annual basis prior to the start of the financial year.	****	
Budget holders are formally identified and manage within their DLA limits.	****	
Budget reports are prepared timeously on a monthly basis and contain accurate and relevant information for the use of the budget holders.	****	
Budget virements and amendments are only agreed with appropriate authority.	****	

**Key:**

- \*\*\*\* Arrangements accord with good practice and are operating satisfactorily (recommendations are in respect of minor matters).
- \*\*\* Adequate arrangements are in place, but certain matters noted as requiring improvement.
- \*\* Arrangements in place offer scope for improvement.
- \* Inadequate level of control and unacceptable level of risk.

We can conclude that the controls in place for the management of Budgetary Controls & Monitoring within CNPA are operating effectively, with no major areas for improvement identified. We did identify one area for improvement relating to the updating of the financial regulations.

Our key finding is as follows:

- CNPA Financial Regulations require to be amended to reflect the actual procedure for approval of Expenditure Requisition Forms (Recommendation 2.1).

## Section 1 - Executive summary (continued)

### 1.4 Conclusion (continued)

Our detailed findings and recommendations are within **Section 2** of this report. In total, we identified **one** recommendation as follows:

Description	Priority	Number
Major issues that we consider need to be brought to the attention of Management and the Audit Committee	1	0
Important issues which should be addressed by management in their areas of responsibility	2	0
Minor issues where management may wish to consider our recommendations	3	1
	<b>Total</b>	<b>1</b>

### 1.5 Acknowledgements

We would like to take the opportunity to thank all of the Cairngorms National Park Authority staff involved in assisting us in this audit. The findings and recommendations in this report were discussed with the Head of Corporate Services and Finance Manager at the conclusion of our fieldwork.

## Section 2 - Detailed findings and recommendations

### 2.1 Forms approval / Financial Regulations amendments

Finding	Recommendation	Rationale	
<p>We selected a sample of 10 Expenditure Justification Forms for testing to establish whether items over £10k were authorised in line with CNPA Financial Regulations.</p> <p>The regulations state that the procedure for approval of the requisitions is the same as for Expenditure Justification Forms (Appendix A: A guide to budgeting, procurement and expenditure management in CNPA, section 37 and table of approvals).</p> <p>None of the forms were authorised in accordance with the manual. We discussed this with the Head of Corporate Services who confirmed that there is no expectation of Expenditure Requisition Forms going through the same process of approval as initial justification of spend. After the relevant Committee has confirmed the spend, it is for Programme Managers to commit the funds in the way that they see fit.</p>	<p>The CNPA Financial Regulations manual should be updated to reflect actual practice in relation to the authorisation of requisition forms.</p>	<p>The Financial Regulations manual is the main reference document for all financial processes at CNPA and it is important to ensure that it is accurate and complete in order for staff to follow due process.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Recommendation agreed.</p>		<p>Finance Manager / June 2010</p>	<p>Three</p>

## Section 3 - Statement of responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

*Deloitte LLP*

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*April 2010*

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## Appendix A – Scope and Objectives

### Background

Cairngorms National Park Authority (CNPA) has a budget of £5.5m and is responsible for ensuring that funds are appropriately managed within the organisation and appropriately discharged as part of any funding packages supported.

The overall objective of this internal audit will be to assess the key controls over budget setting, monitoring and reporting to provide management with assurance that the procedure and controls in place are operating effectively.

### Objectives

The objectives of this internal audit are to evaluate the adequacy and effectiveness of the controls in place in respect of the following:

- There are procedures in place to guide the budget setting process and to aid budget holders in the management of available resources;
- Budget holders formally accept their budgets on an annual basis prior to the start of the financial year;
- Budget holders are formally identified and manage within their DLA limits;
- Budget reports are prepared timeously on a monthly basis and contain accurate and relevant information for the use of the budget holders;
- Budget virements and amendments are only agreed with appropriate authority.