

EUROPARC Federation

Report to Council 28th September 2014



Title:

EUROPARC Consulting and relationship with the Federation

Summary:

The internal audit review considers Europarc Consulting and its relationship with the wider Europarc Federation; provides recommendations and EUROPARC Consulting comments.

Recommendations:

- ❖ To note the report

EUROPARC CONSULTING AND RELATIONSHIP WITH THE FEDERATION

Introduction and Background

1. This internal audit report is produced as part of the internal audit workplan agreed by the General Assembly. The internal audit review considers Europarc Consulting and its relationship with the wider Europarc Federation.
2. The report is informed by the Internal Auditor's observation of the governance and strategic planning structures over the last 5 years. The Internal Auditor also attended a Europarc Consulting Board meeting held in Regensburg in December 2012.

Europarc Consulting - Governance

3. Europarc Consulting (EPC) is the consultancy arm of the Europarc Federation. The company is wholly owned by the Europarc Federation and established as a trading entity under German law. The company also has a registered subsidiary company in England, through which its UK business is administered.
4. According to EUROPARC Consulting's Articles of Association, the company is legally represented and led by "by one general manager on his/her own, if he/she is the sole general manager". German limited companies do not have a Board of Directors like UK companies. They sometimes have an Advisory Board in special cases when, for example, the limited company is owned by an "eingetragener Verein" (charity/NGO) as is the case with EC.
5. All members of the Advisory Board are appointed, according to statute, by the Shareholder for 5 years. The Shareholder must appoint the EUROPARC Federation President and the Director ex officio to the Advisory Board. No member is co-opted. It is for the members of the Board to elect its chairman from the 3 independent members.
6. According to the EC Articles of Association, the Advisory Board must meet 2 times a year. The times are entirely at the discretion of the Board.
7. **Recommendation:** the legal form and associated governance arrangements of Europarc Consulting merits review by the Federation as part of the wider consideration of forward strategy to ensure current arrangements remain fit for purpose to the Federations wider aims and also within planned operations. While this recommendation in no way whatsoever reflects on the capacity or abilities of people currently involved in delivery of the Federation's and Consulting's objectives, there does appear to be limited governance and checks and balances in the current arrangements where an entity is effectively led and represented by a single general manager with only an Advisory Board involved in the process.

Objectives and Delivery Arrangements

8. Europarc Consulting's aim is to specialise in the policy and practice of protected area management – providing advice, training and expertise to clients in this specialty. In putting together tender specifications and delivering contracts, EPC aims to use the protected area

network across Europe to call on subject specialists and their relevant language skills to take part in project delivery teams. The company offers a range of services, from individual one-off pieces of consultancy work to the implementation of larger projects for government institutions and international funding bodies. An aim of EPC is to make annual financial profits and through these profits make yearly contributions back to the Federation as a means of generating financial support for the Federation's core activities.

EC Comment: As a commercial organisation it must be our aim to generate an annual financial profit. However, making a financial contribution to the EUROPARC Federation is only one of our aims and since 2007 we have summarised our aims as:

- To provide good value-for-money and high-quality expert consultancy services for the EUROPARC Federation network and beyond, with experts mainly drawn from the EUROPARC pool.
- To help raise the Federation's profile in Europe.
- To contribute financially to the EUROPARC Federation, aiming to provide funds towards one full-time member of staff

Strategic Planning and Targets

9. The main strategic planning link between EPC and the Federation is the EPC Strategy and associated business plan. The strategy sets out EPC's medium to long term objectives for business development and financial targets. The strategy in recent years has also identified a target level of financial contribution to be made by EPC to the Federation in order to address previous internal audit recommendations. Previously, no advance targets were set and the level of contribution was determined by the EPC Board at the end of each year. Setting the forward financial target for EPC's contribution to the Federation is in my view a welcome addition to the strategic planning of both EPC and Federation, and also an improvement to the system of governance controls operating within the Federation and its various operational entities.

EC Comments: EC financial aspirations were clearly laid out in the EUROPARC Consulting Business Plan. The "targets" for EUROPARC Consulting's contributions to the Federation are not seen as commitments until the Board decides whether a Resource Recompense should actually be paid. For the last 3 years, the actual level of the Resource Recompense has been set at the Board meeting in Spring, based on affordability, and confirmed at the meeting in autumn, to be paid after that when requested by the Federation.

10. The Federation also has sight of EPC's proposals and planning through their two EPC Board members attending EPC Board meetings, while representatives of EPC have frequently attended Federation Council meetings at the invitation of the Council.

EC Comment: The Federation Council resolved in 2008 that the Geschäftsführer should always attend each Council meeting. Before that and since by mutual agreement, the EC Chairman has also been invited to attend together with the Geschäftsführer or instead of him.

11. There are opportunities for potential benefits which may be gained by the Federation through EPC activity to be widened beyond a focus on the annual financial contribution made by EPC to the Federation. For example, the project activities undertaken by EPC may lead to generation of additional Europarc Federation memberships, strengthening the Federation membership as a whole and also bringing some financial gain through additional membership fees. At a “looser” level, EPC activity may generate new contacts – people who show a wider interest in the work of the Federation and where further liaison may result in new members in the future.

EC Comment: We agree and our contribution, over the last 7 years, through project activities has led to many new Federation members (e.g.10 members of Dinaric Arc region in 2013). EC promotes the Federation, the Charter, the network, etc., as part of our DNA. We also see opportunities for the Federation and its Council members to increase awareness and commercial openings for Consulting thus enhancing the holistic relationship.

12. There is also an opportunity to enhance governance by considering targets for numbers and / or values of contracts tendered for each year and also developing some monitoring or performance indicators on tender success rates. More thorough analysis of tendering activities and success rates may help identify subject / operational areas in which EPC appears to have some strength through good levels of tender success and others where either competition is stronger or tenders lack sine key aspect, where success levels are lower. A measure of the numbers of invitations to tender received each year would also represent a potentially useful indicator of the overall profile of Europarc Consulting in the market segments in which it is seeking to operate.

EC Comment: Analysis of tender success is obviously done by the Geschäftsführer as good business practice but caution is needed to make too complex. We do analyse very carefully each tendering activity but because the statistically low number per year of tenders actually submitted, any percentage of “success” would be totally misleading. We currently keep a list of all such activities and show reasons when we do not succeed.

13. **Recommendation:** there appear to be opportunities to develop a fuller suite of Key Performance Indicators (KPIs) to highlight the performance and success of Europarc Consulting and to assist the EPC Board in reviewing organisational performance at Board meetings. The Europarc Consulting Board should consider adoption of a set of KPIs against which to monitor success in delivery of its strategy and business plans. The KPIs and performance assessments against them could be summarised into a concise performance monitoring table for use at Board meetings and if necessary concise reporting between formal meetings.

EC Comment: A good idea to gauge performance but caution complexity and time with one Geschäftsführer in a small company situation. Time measuring performance takes away time in seeking work.

14. **Recommendation:** there is an opportunity to widen scope of targeted contributions which could be made by EPC to the Federation. For example, a measure of additional memberships secured through EPC’s activities and of new contacts through which future memberships may

be generated may be worthwhile measures of the wider influence and benefit of EPC activities to the Federation.

EC Comment: Agree that EUROPARC Consulting's value to the Federation is more than the Resource Recompense (also see comments to No.9).

15. Establishing an agreed set of performance targets or KPIs, by extracting relevant targets from the strategy and business plan could significantly enhance the mechanisms for reporting on delivery to the Board. These mechanisms could also help readily highlight any significant exceptions to provide Board members with clear, focused highlights of issues for their consideration, making best use of relatively scarce Board meeting time.

EC Comment: It should be noted that the EUROPARC Consulting Board is not a "Board of Directors" in the UK sense, nor a supervisory board ("Aufsichtsrat") according to § 52 GmbHG as German law would not permit this. The functions of the EUROPARC Consulting Board are set out in our Articles of Association. The main function of the EUROPARC Consulting Advisory Board is to "carry out the duties of the shareholders' meeting unless the by laws or legal regulations stipulate that such duties must be reserved to the shareholders' meeting" (such as approving the EUROPARC Consulting accounts each year). The Board is also responsible for "approving actions or transactions of the general management which go beyond the scope of routine business" as described in the Articles of Association. See also comments in No. 11.

Governance Arrangements

16. As noted, the EPC Board meets formally 3 times each year, while EPC Board members also meet at various Federation and other events over the course of the year on a more informal basis. The Chairperson of EPC also has regular contact with the Geschäftsführer. These 3 Board meetings each year represent the main opportunities for the conduct of official Board business. Given the Europe wide scale of operations, it is accepted that bringing people together for meetings is costly in terms of travel and accommodation. There is a risk, however, that only 3 Board meetings each year could provide lengthy gaps in dealing with items of business, during which time the seriousness of issues could escalate. There also should be mechanisms in place for "exception reporting" between meetings – a process whereby Board members can be informed without delay of any significant matters arising on contract delivery, tendering, organisational and financial management and where Board members can give direction to staff on these exceptional issues.

EC Comments: The Board meets twice per year (see No. 5) and exception reporting already exists (i.e. the *raison de etre* of the Advisory Board), particularly the close working relationship with the Chairman of the Board. For example, this mechanism was used when sudden changes of the Charter were proposed in 2012/13. In accordance with the duties of Geschäftsführer it is obligatory to submit to the Advisory Board regular reports about the development of our business (as are supplied before each meeting of the Board) plus any additional report "without delay in the case of unusual happenings" ("unverzüglich im Falle außergewöhnlicher Ereignisse").

17. **Recommendation:** the Board should consider arrangements for exception reporting and consideration of significant issues between meetings.

EC Comment: See comments in No. 14.

18. **Recommendation:** the Board should consider development of a set of standard quarterly reports to be produced and circulated for consideration at meeting where a meeting is arranged or for consideration by correspondence where there are gaps between meetings. Standard quarterly reports will ensure provision is made for ongoing scrutiny of the financial performance and organisational health of EPC by the Directors who are responsible for the governance of the organisation.

EC Comment: The members of the Advisory Board are not in law "responsible for the governance of the organisation". Only the Geschäftsführer is.

17. Observation of the Board meeting in December 2012 highlighted that agreed actions were embedded in the minutes of the previous meeting. This practice does retain a record of agreed actions. There is merit in considering drawing all agreed actions out into a separate schedule, making it easier for the Chairperson to identify all outstanding actions and go through them at following meetings. A separate schedule of actions may also give a useful reference document against which staff may issue updates on progress made between Board meetings.

18. **Recommendation:** the EPC Board should consider drawing out all agreed actions into a stand-alone schedule, specifying deadlines for delivery against these actions and identifying those responsible for undertaking them. This could improve governance controls and also provide a mechanism to support updates to Board members between meetings.

Financial Planning and Reporting

19. As noted previously, the establishment of forward targets for a financial contribution to be made by EPC to the Federation is, I believe, an improvement for the financial planning of both EPC and Federation and also an improvement in the governance and control systems operating. Observation of the Board meeting in December 2012 made clear that all Board members, including the 3 independent members, were very clear about the need to maintain the commitment to meet the target for financial recompense to the Federation. This appears to reinforce the validity of setting this forward target as one means to help bind the operations of EPC to that of its owner.

EC Comment: See No. 7.

20. Board members were presented with an update of EPC's financial position at the Board meeting in December. I believe the ability of members to consider the financial information and the significance of results would be improved by the presentation of more comparative information. For example, presenting the current financial position in the context of some or all of the following information would allow members to better understand the implications of the current financial results for the year to date:

- a. Last financial year position at the same point in time;

- b. Target or budget position for the current year compared with actual;
- c. Full year target / business plan forecast;

EC Comment: A useful suggestion.

21. I believe it is also important for staff to provide Board members with their best estimates of performance against objectives and financial targets by the end of the year – perhaps using ranges to allow for significant uncertainties in tender or other performance. Significant assumptions can be stated explicitly if required. This practice gives staff, who are generally closest to the operations of the company, the opportunity to highlight to members their updated best estimates on financial performance compared with:

- d. Previous year final results;
- e. Full year targets;
- f. Next year forecasts.

EC Comment: Very important to understand that the Geschäftsführer is technically not “staff” and is the only legal representative of the company, responsible in law. See also comment No. 4.

22. **Recommendation:** Board members should consider the format and content of the financial and performance information supplied at Board meetings, to ensure their personal responsibilities in managing the financial affairs of the entity are met and to ensure that they are satisfied that they have appropriate, clear information on the financial health of the company.

EC Comment: Important to note - The Advisory Board has no “personal responsibilities in managing the financial affairs of the entity”. In the past, Advisory Board members have made it clear that a balance is to be struck between too much and too little information.

23. The overall direction of the comments made in terms of Strategic and Financial Planning seeks to ensure Board members are presented with appropriate information on the operational effectiveness and health of EPC and of its overall contribution to the Federation.

EC Comment: Agree.

Director Responsibility

24. Directors of companies and charities typically carry some personal responsibilities for ensuring the financial and operational health of the organisations to which they accept appointment. These responsibilities and the degree to which they are direct personal responsibilities vary from country to country and also between types of organisational entities and I am not qualified to advise on the specific personal responsibilities that Directorship of EPC results in for its Board members. Many companies carry some form of insurance to help cover their Directors for all or part of any financial liabilities they may incur as a result of their Directorship of a company or charity. While no specific issue around this has come up during my review of the operation of EPC, I think this matter is sufficiently important to note in this report.

EC Comment: See No. 22.

25. **Action:** Directors should consider whether they are sufficiently well informed of their legal responsibilities and potential personal liabilities in taking on the role of a Director of EPC.

EC Comment: **Important to note** - Each member of the Advisory Board receives a copy of the Articles of Association. None of the members has any personal responsibility for the company. Members are there to advise and make decisions in a very limited number of situations such as the appointment of a new Geschäftsführer, the take-over of other companies, etc. It is important to note that the **main purpose of the Board** is to "carry out the duties of the shareholders' meeting unless the bylaws or legal regulations stipulate that such duties must be reserved to the shareholders' meeting". This is the main reason why we have such a Board, in order to separate the "charity" from the commercial operation. The Board is also responsible for "approving actions or transactions of the general management which go beyond the scope of routine business" (and these are listed in our Articles of Association).

Longer Term

26. There have been some significant changes discussed in the role of EPC over the last two years, particularly in terms of the EPC's role in the Sustainable Tourism Charter (STC).

27. It is entirely appropriate that the overall and specific operational arrangements for provision of services and support to members is reviewed from time to time. The Federation is a relatively complex operation, with the involvement of the Council, Directorate and regional Sections in addition to EPC, plus some specific working groupings. The ability to link all these aspects together has been recognised as a significant challenge and risk within the Federation since my first year of appointment as internal auditor in 2009.

28. The Federation is currently undertaking consultation on its future strategy and this would appear to be an appropriate time for the Federation Council and EPC Board to individually and collectively undertake a detailed review of EPC and of its place within the delivery of a new Federation Strategy.

EC Comment: Agree.

29. **Recommendation:** Federation Council to undertake a detailed review of the place of EPC in a new Europarc Federation strategy.

EC Comment: A welcome opportunity. EUROPARC Consulting has always taken the Federation's Strategy as its starting point to help promote the ethos of the Federation through EC's work within the wider remit of our company objects in our Articles of Association: "The object of the company is to act as consultants and to render services to private and public institutions in connection with planning establishing and managing nature and national parks and similar protected areas including conservation areas of all kinds for the protection of nature, animals and landscapes, as well as to act as consultants and render services in connection with animal, nature and landscape conservation projects of all kinds."

30. **Recommendation:** EPC Board to consider the Federation's draft strategy when available and consider its potential contributions to delivery of that strategy.

EC Comment: Agree and would hope to input into its development

EUROPARC FEDERATION – INTERNAL AUDITOR’S REPORT (Draft)

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