

CAIRNGORMS NATIONAL PARK AUTHORITY

FOR DECISION

Title: **AUDIT COMMITTEE ANNUAL REPORT**

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Purpose

To present a draft Audit Committee Annual Report to members for approval, prior to its submission to the Board.

Recommendation

The Committee is requested to consider the draft annual report to the Board, set out in the paper and to:

- a) Agree any amendments required.
- b) Approve the submission of the report to the Board, subject to incorporation of any amendments agreed.

Executive Summary

The Audit Committee is required to report annually to the Board on its activities. The paper presented here sets out a draft of the second such annual report, covering the Committee's activities from September 2005 to December 2006.

It is intended that the agreed report will be presented as a paper to the Board at its meeting in February 2007, following the Committee's consideration of the draft report and incorporation of any agreed changes.

AUDIT COMMITTEE ANNUAL REPORT – FOR DECISION

Background

1. The Audit Committee is required to report annually to the full Board on its activities over the year, and on the reports presented to the Committee by the Authority's internal and external auditors.
2. The previous Audit Committee Annual Report was submitted to the Board in January 2006, covering the period from April 2004 to August 2005. This second Annual Report is presented on behalf of the Audit Committee to cover the period of its operations from September 2005 to its meeting of 15 December 2006.

Overview

3. This period of this Annual Report covers consideration of draft final accounts for both 2004/05 and 2005/06, together with associated reports from Audit Scotland, the Authority's external auditors. The period also covers the second phase of internal audit work undertaken by Deloitte, following their appointment in July 2004.
4. The Committee met four times in the period September 2005 to December 2006. In addition to management reports from the College's Internal and External Auditors, considered in further detail below, the Committee considered the following issues during the course of the year:
 - a) Risk management: approval of the Authority's Strategic Risk Register and processes for embedding regular review of strategic risk management by the Management Team and Audit Committee.
 - b) Health and Safety Policy
 - c) Information Technology contingency planning and business continuity plans.
 - d) Freedom of Information: update on caseload and management of information requests.
 - e) Balanced scorecard: development of performance measures to provide a high level, overview assessment of corporate governance and risk management performance.
 - f) Review of governance arrangements through consideration of the number and outcomes of complaints made to external review bodies.
 - g) Organisational Greening Policy: update on action taken in implementing the greening policy approved by the Board in March 2006.
 - h) Statement of Internal Control: review and approval of this statement, prior to its inclusion in the annual accounts and prior to signature by the Accountable Officer.
 - i) Updates on progress in implementing previous audit recommendations: officers have presented regular progress updates on the implementation of audit recommendations. These officer reports have been highlighted by internal auditors as establishing best practice.

Internal Audit

5. The Committee agreed an annual internal audit work programme presented by Deloitte.
6. Deloitte have since presented seven management reports to the Committee. Their findings and consequent recommendations for action are graded according to the internal auditors' assessment of the significance of the underlying weakness to the effective management of the organisation. Table One presents a summary of the internal audit findings over the course of the year.

Table One: Summary of Internal Audit Findings

Internal Audit Study	Number of Recommendations		
	Priority 1	Priority 2	Priority 3
Project Planning	-	5	1
IT Contingency Planning	-	3	-
Server Security	-	3	-
Financial Ledger	-	5	2
Grant Awards	-	2	3
Risk Management	-	-	2
Cash and Cash Flow Management	-	-	2

7. Despite the ongoing development of the organisation, no priority 1 recommendations have been made following the seven internal audit reviews reported to the Committee in the period. Priority one recommendations would reflect findings which the internal auditors consider to be major issues which need to be brought to the attention of senior management and the Audit Committee.
8. In practice, the Committee is aware of all recommendations made by the internal auditors, through consideration of full management reports following each audit review.
9. The Committee has noted management responses to all recommendations made and will monitor progress made. The internal auditors will also conduct follow-up reports and report back to the Committee on their findings.
10. All planned internal audit work for 2005/06 was undertaken, with the exception of a study on procurement policy and practice. The Audit Committee was informed that this review had been deferred, with the agreement of the Internal Audit Manager and Head of Corporate Services, pending clarification of the requirements of the recent McClelland report on this subject.

11. The Internal Auditors' Annual Report was presented to the Committee at its meeting in August 2006. Their report concludes that, on the basis of work undertaken, the Authority generally has an adequate framework of internal control.
12. The Committee has agreed an internal audit programme for 2006/07. This programme reduces slightly the number of internal audit days compared with previous years. Internal audit work over the last two years has now covered detailed reviews of all key control areas, and the auditors' opinion was that they could focus more on self-assessment, undertaken initially by officers, in testing the ongoing refinement and improvement of systems. The level of findings from previous years and assessment of risks supported their proposals to reduce the number of planned days.

External Audit

13. The Authority's accounts for both 2004/05 and 2005/06 have received clear, unqualified certificates from Audit Scotland, our external auditors.
14. The Audit Committee considered Audit Scotland's Management Report on the 2004/05 accounts at its meeting in December 2005 and noted three points for action raised in the report:
 - a) Discussing with the Scottish Executive the possibility of bringing into line differing accounting policies for the treatment of grant-in-aid and expenditure;
 - b) Dissemination and embedding of financial regulations agreed by the Audit Committee in August 2005;
 - c) Completion of a risk register from the work undertaken in identifying strategic risks and establishing a Risk Management Policy.
15. All three of these action points have now been addressed and no follow up actions are identified in Audit Scotland's Management Report on the 2005/06 accounts.
16. The Committee considered Audit Scotland's Management Report on the 2005/06 accounts at its meeting in December 2006 and noted three points for action raised in the report:
 - a) Review the Financial Reporting Manual (FReM) to determine whether any improvements are required to the Authority's disclosures in the Annual Report and Accounts;
 - b) Review disclosure policy for senior management remuneration in the Annual Report and Accounts;
 - c) Develop performance measures to demonstrate that the Authority is securing continuous improvement.
17. Management responses on these issues arising from the Management Report on the 2005/06 accounts have been approved. It is anticipated that action taken will be reviewed by Audit Scotland as part of their reviews leading to certification of future years' accounts.

18. The internal audit work programme and follow up activity will also be informed by the findings raised in these Audit Scotland reviews.

Conclusions

19. The Audit Committee considers that it has been successful in progressing the Board's governance and internal control priorities during the period to December 2006. There has been an engagement through the year with issues identified by the Authority's internal and external auditors, and also by the Authority's officers. The Committee has received full reports on issues raised; considered recommendations made; and approved responses and actions.
20. Both the internal auditors' finding of adequate levels of internal controls within the Authority, and the external auditors' unqualified audit certificate provide assurance to the Committee and Board that the Authority's internal control and governance objectives are being met by management.
21. In particular, reports over the course of the year have indicated that our practice of reviewing the status of action on outstanding audit recommendations sets best practice in this aspect of the Committee's work on internal controls.
22. It is also worth highlighting that the internal audit report considered in December 2006 on risk management indicates that the Authority's Risk Management processes are more mature than might be anticipated for an organisation at this stage of development. The internal auditors have indicated that their review in this area finds that significant progress has been made over the last 18 months.
23. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
24. The Committee also plans over the course of the coming years to continue to consider means by which it can broaden its activities to review how well the Authority delivers its overall corporate and operational plan objectives.
25. In future years, the Committee will also consider follow up reviews by both internal and external auditors in order to provide the Board with assurance that actions highlighted are being addressed, and therefore that weaknesses in internal control systems identified are corrected.

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