

Cairngorms National Park Authority

INTERNAL AUDIT REPORT

Corporate Governance

August 2017

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Substantial



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DISTRIBUTION LIST	
David Cameron	Director of Corporate Services
Audit Committee	Members

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EXECUTIVE SUMMARY

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)	
Design	 There is a sound system of internal control designed to achieve system objectives.	High	
		Medium	
Effectiveness	 The controls that are in place are being consistently applied.	Low	 
		Total number of recommendations: 1	

OVERVIEW
<p>Background</p> <p>As part of the 2017-18 Internal Audit Plan, it was agreed that Internal Audit would perform a review of key corporate governance controls in order to provide management and the Audit Committee with assurance that controls are well designed and operating effectively.</p> <p>The Cairngorms National Park Authority (CNPA) governance structure consists of the Board and the following sub-committees:</p> <ul style="list-style-type: none"> • Audit and Risk Committee, which is responsible for overseeing the external and internal audit functions, and supports the Board in discharging its responsibilities for matters relating to risk, internal controls, governance and associated assurance through a process of constructive challenge. • Finance and delivery committee, which is responsible for reporting and analysing the Authority’s financial matters, such as monitoring CNPA’s budgets and financial reporting. • Staff and recruitment committee, which is responsible for overseeing human resource related matters, such as agreeing remuneration changes in relation to key staff. • Planning Committee, which is responsible for all matters relating to the Authority’s statutory planning functions, such as discussing and approving the Authority’s developments.

EXECUTIVE SUMMARY

OVERVIEW

The Board has a Standing Order in place which documents the membership, quorum requirements and frequency of meetings to be held. Meetings are set for the Board and sub-committees a year in advance, with standing agendas and reports provided to members prior to the meetings and published online where they are available to the public. Members are provided with an opportunity to make amendments and additions to the meeting agendas prior to the meeting taking place. The Planning Committee also has a Standing Order in place which documents the same information as the Board Standing Order.

The Finance and Delivery Committee has a terms of reference in place outlining the membership, quorum requirements and remit. The remit outlines that the committee is responsible for overseeing the preparation of annual budgets and the corporate plan, and for monitoring income and expenditure against budget.

The Audit and Risk Committee has a terms of reference in place outlining the membership, quorum requirements and remit. The remit outlines that the committee is responsible for agreeing the appointment of an internal auditor, for overseeing and monitoring the development of the CNPA's internal audit plan, and for monitoring the adequacy of the CNPA's internal control systems.

The Staffing and Recruitment Committee has a terms of reference in place outlining the membership, quorum requirements and remit. The remit outlines that the committee is responsible for providing an interface between staff representative groups and the Board, and play a role in arbitrating on staffing issues as set out on the organisation's policy and procedures, and to oversee the recruitment of senior staff.

CNPA's Board is comprised of 19 members. Five Board members are directly elected in accordance with the Cairngorms National Park Elections, seven members are directly appointed by Scottish Ministers and seven are appointed by Scottish Ministers through nomination by the relevant Local Authorities. The Audit and Risk Committee, Finance and Delivery Committee and Staffing and Recruitment Committee consist of members of the Board.

CNPA also operate a Convenors Group, consisting of the Convenor, the Board Depute Convenor, Convenor and Depute of the Planning Committee, and the Convenor from each of the sub Committees. At the Convenors Group meeting discussions take place to consider business, ensure that the work of all branches of the governance system are integrated, and review forward agendas for the Board and Committees. The Management team also consider the Board agendas in detail on a quarterly basis to provide input into the programmes for the Convenors.

EXECUTIVE SUMMARY

OVERVIEW

The Scottish Government Rural and Environment Directorate, in consultation with CNPA, developed CNPA's Management Statement and Financial Memorandum. The Management Statement sets out the framework within which the Authority should operate and outlines the respective roles and responsibilities of Scottish Ministers, the Portfolio Accountable Officer, the Convener/Depute Convener, the Board and the Chief Executive Officer (CEO). The Management Statement also provides guidance on planning, budgeting, control and external accountability. The Financial Memorandum provides information on the budgeting procedures and processing income and expenditure, in addition to the management and disposal of property, plant and equipment.

Administration arrangements are in place to ensure members receive management papers and meeting agendas prior to meetings and publish these on the CNPA website a week prior to meetings. Minutes are taken for each meeting and approved at the subsequent meeting.

Once appointed, new Board members receive an induction which includes meeting with the Convener and CEO prior to their first Board meeting. New members are provided with an induction pack based on their needs following the completion of an induction checklist, which aims to determine their level of knowledge through their response to a number of questions. The pack provides members with information on areas including general conduct, summary of meeting dates, staff details, the Standing Order for the Board and the Code of Conduct.

CNPA conducted a skills self assessment on Board members in May 2017 to support the Convener's annual discussions with members to review performance and also to allow staff to be aware of members areas of knowledge. A Board skills matrix has also been developed to use when engaging on public appointments and to influence where possible the local authorities nomination of members.

Scope and Approach

The scope of our review was to assess whether the Board and sub-committees terms of reference are clear, comprehensive and do not overlap with those of other committees, and whether the roles and responsibilities of the Board and sub-committees defined in the terms of reference are in line with the Management Statement and Financial Memorandum. We evaluated whether the Board and sub-committees have a tangible, agreed, programme of work that allows them to make an effective and timely contribution and meet their responsibilities. We assessed whether the minutes of the Board and sub-committees indicate strong engagement by all members and whether members are provided with sufficient, timely and high quality management information to effectively discharge their responsibilities. We also assessed whether the Board and sub-committees regularly assess their own effectiveness and take action on areas where required. Finally, we assessed whether adequate arrangements for the induction and continuing education of Board members are in place.

EXECUTIVE SUMMARY

OVERVIEW

Our approach involved reviewing key documentation, including Board and Committee meeting minutes and papers, in order to assess the attendance and engagement of the members and the quality of management information provided. We also sent questionnaires to Board members to gain feedback on the Board Terms of Reference, the management information received, the training provided, and the processes in place to assess Committee effectiveness.

Good Practice

We are pleased to report that members are provided with sufficient, high quality management information and support to enable the effective discharge of their responsibilities. CNPA have clear, non-overlapping terms of references in place for all sub-committees and a Standing Order for the main Board. We note that the authority operates a Convenors Group, which consists of the Convenors and Deputy Convenors from all committees who meet regularly to consider the authority's business.

We noted that CNPA has used the Scottish Government on Board Guidance to ensure good practice has been put in place, for example, ensuring that the induction process outlines the ethical requirements and code of conduct and provides information on the roles and responsibilities of members. Board and sub-committee meetings are well attended and minutes indicate effective and strong engagement.

We also note that a skills self assessment is regularly undertaken by the Board members and the Board has also undertaken regular performance review discussions. We noted that the interaction between the sub-committees and the Board is strong. The Code of Conduct, provided to new members as part of the induction process, has also been prepared in line with Scottish Government guidelines.

Key Findings

Notwithstanding the elements of good practice noted above we have found areas where further improvements could be made to the Corporate Governance arrangements. We have listed these improvements below:

- **Board and Committee Training** - The Board and committees have not received regular and consistent formal training.

Conclusion

We are able to provide substantial assurance over the design and operational effectiveness of the Corporate Governance controls in place.


EXECUTIVE SUMMARY

RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE

- ☑ The Board and sub-committee terms of reference may be unclear, overlapping or leave gaps.
- ☑ The roles and responsibilities of the Board and sub-committees defined in the terms of reference may not be in line with the Management Statement and Financial Memorandum.
- ☑ Board and sub-committees may not have a programme of work in accordance with their terms of reference that allows them to make an effective and timely contribution.
- ☑ Members may not be provided with sufficient, high quality management information in their areas of responsibility.
- ☑ Members may not be sufficiently assertive in ensuring corrective or improving actions are taken.
- ☑ The Board and sub-committees may not have effectively assessed their performance, training requirements, and the balance of skills required within the Board and sub-committees, or may not have taken effective action based on these assessments.
- ☑ There may be inadequate arrangements for induction of Board members, or for continual updating of members on issues which should be brought to their attention.

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: The Board and sub committees may not have effectively assessed their performance, training requirements, and the balance of skills required within the Board and sub-committees, or may not have taken effective action based on these assessments.

Ref.	Finding	Sig.	Recommendation
1	<p>Conducting regular Board training ensures that members skills are kept up to date and fresh in line with the ever changing economic environment.</p> <p>As part of our audit we distributed questionnaires to Board members and three out of seven respondents highlighted that the frequency of training could be increased. One of those respondents also explained that a re-assessment of training to reflect the changing governance and economic environment would be beneficial.</p> <p>There is a risk that training may not be provided to members on a regular basis to allow them to develop their skills in line with the changing economic environment.</p>		<p>We recommend that regular refresher and emerging issues training on areas such as cyber security are considered for the Board and committee members.</p>
MANAGEMENT RESPONSE		RESPONSIBILITY AND IMPLEMENTATION DATE	
<p>Agreed. We will work with the Convenor to identify the best way to take forward our programme of Board skills training, supported by our Board self-assessment mechanism.</p>		<p><i>Responsible Officer: Director of Corporate Services with Head of Organisational Development</i></p> <p><i>Implementation Date: 31 March 2018</i></p>	

OBSERVATIONS

Agendas

1. As a result of the questionnaires distributed to Board members, one out of seven respondents explained that agendas are not always provided in a timely manner and that agenda alterations can only be made within the week prior to the meeting. However, the remaining members that responded were satisfied with the processes in place in relation to receiving and altering meeting agendas.

Board Programme of Work

2. As part of the audit we conducted surveys with the committee members and two of the seven respondents raised the absence of work programmes for the Board as an issue and indicated that it would be beneficial to develop these. We recognise that for all meetings an agenda is prepared and distributed in advance of any meetings. We also understand that due to the ever changing nature of the information that the Board discusses that it is difficult for a programme of work to be created.





APPENDIX I - STAFF INTERVIEWED




NAME	JOB TITLE
David Cameron	Director of Corporate Services
Alix Harkness	Clerk to the Board
Janet Hunter	Board Member
Rebecca Badger	Board Member
Angela Douglas	Board Member

NAME	JOB TITLE
Kate Howie	Board Member
Dave Fallows	Board Member
Jeanette Gaul	Board Member
Gordon Riddler	Board Member

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX III - TERMS OF REFERENCE

PURPOSE OF REVIEW

The purpose of this review is to provide the Audit Committee with a level of assurance around the current corporate governance arrangements, and provide management with advice and recommendations for improving the arrangements further.

We will assess whether the Board and Board sub-committees have clear and appropriate terms of reference and programmes of work, and whether meetings are well attended and minutes indicate sound engagement. We will also consider whether the Board and sub-committees are receiving sufficient high quality management information to discharge their role. Our review will also cover the arrangements in place to induct Board members and to assess the effectiveness of the Board.

KEY RISKS

Based upon risk assessment undertaken, discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are :

- The Board and sub-committee terms of reference may be unclear, overlapping or leave gaps;
- The roles and responsibilities of the Board and sub-committees defined in the terms of reference may not be in line with the Management Statement and Financial Memorandum;
- Board and sub-committees may not have a programme of work in accordance with their terms of reference that allows them to make an effective and timely contribution;
- Members may not be provided with sufficient, high quality management information in their areas of responsibility;
- Members may not be sufficiently assertive in ensuring corrective or improving actions are taken;
- The Board and sub-committees may not have effectively assessed their performance, training requirements, and the balance of skills required within the Board and sub-committees, or may not have taken effective action based on these assessments;
- There may be inadequate arrangements for induction of Board members, or for continual updating of members on issues which should be brought to their attention.


APPENDIX III - TERMS OF REFERENCE

SCOPE OF REVIEW



The scope of this review is to assess whether:

- Board and sub-committee terms of reference are clear, comprehensive and do not overlap with those of other committees;
- The roles and responsibilities of the Board and sub-committees defined in the terms of reference are in line with the Management Statement and Financial Memorandum;
- Board and sub-committees have a tangible, agreed programme of work that allows them to make an effective and timely contribution and meets their responsibilities;
- Minutes of Board and sub-committees indicate strong engagement by all members;
- Members are provided with sufficient, timely and high quality management information to effectively discharge their responsibilities;
- The Board and sub-committees regularly assess their own effectiveness and take action on areas where required;
- Adequate arrangements for the induction and on going education of Board members are in place.



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