

CAIRNGORMS NATIONAL PARK AUTHORITY

FOR DECISION

Title: AUDIT & RISK COMMITTEE ANNUAL REPORT

Prepared by: David Cameron, Director of Corporate Services

Purpose

To present the Audit & Risk Committee Annual Report to the Board.

Recommendation

The Audit & Risk Committee is requested to:

- a) **Consider the report and;**
- b) **Agree any amendments to it prior to circulation to the Board.**

Executive Summary

The Audit & Risk 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.

This Annual Report is presented on behalf of the Audit & Risk Committee to cover the period of its operations from September 2016 to September 2017.

Background

1. The Audit & Risk 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. This Annual Report is presented on behalf of the Audit & Risk Committee to cover the period of its operations from September 2016 to September 2017.

Overview

3. The period of this Annual Report covers consideration of final accounts for 2016/17, together with associated reports from Grant Thornton, the Authority's external auditors.
4. The Committee has also continued to have oversight of the work of the Authority's internal auditors and consider reports issued by them.

5. The period of this report covers the first year of delivery of internal audit services by BDO, under a contract let jointly by Scottish Natural Heritage (SNH) in conjunction with the Cairngorms and a number of other public bodies.
6. The Committee met four times over the period covered by this report.

Key Activities

7. In addition to management reports from the Authority'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: the Audit & Risk Committee has continued to take a strategic oversight of the Authority's risk management strategy and regularly considered the strategic risk register. The Committee has considered the appropriateness of coverage of the strategic risk register throughout the year, and adequacy of mitigation action, in periods between full Board considerations of risk management. The Committee has also reviewed and agreed an updated Risk Management Strategy document.
 - b) Detailed Risk Analysis: the Committee has also begun the practice in the year of received an more in depth analysis of key risks from senior management. This practice has been adopted at the suggestion on the internal auditors from their experience with other clients, and provides opportunities to explore key or increasing strategic risks in more detail and evaluate the adequacy of mitigation actions. The subject of the first such detailed risk analysis report was on risks posed by exit from the European Union.
 - c) LEADER: the Authority, as lead body for the management and administration of EU LEADER funding within Cairngorms, has a responsibility to arrange for appropriate internal audit of its LEADER activities under the terms of the service level agreement with the Scottish Government. The Committee has considered internal audit reports on the LEADER programme, and also reviewed the Scottish Government Business Assurance Team's monitoring report on Cairngorms LEADER together with senior management's views on that report.
 - d) Accounting Policy: the Committee reviews and agrees accounting policies as part of its consideration of final accounts prior to their signature by the Accountable Officer. The Committee has agreed the need to establish a fixed asset tagging policy prior to completion of the 2016/17 annual accounts and audit.
 - e) Governance Statement: review and approval of this statement, prior to its inclusion in the annual accounts and prior to signature by the Accountable Officer.
 - f) Updates on progress in implementing previous audit recommendations: the internal auditors have undertaken a formal follow-up review of action taken on previous audit recommendations and reported progress on this to Committee.

- g) Consideration and agreement of forward audit activity plans: the Committee has agreed a forward plan of internal audit activity for 2017/18 with BDO, within a risk-based, rolling, three year internal audit programme. The Committee also agreed the plan for the 2016/17 external audit and oversaw progress in delivery of that external audit plan.
- h) Best Value: the Committee has agreed an internal audit advisory review of the Authority's future development of Information and Communications Technology infrastructure, as a contribution toward supporting best value in management practices and provision of public services within the Authority. The Committee has also undertaken a regular overview of the Authority's complaints handling to ensure improved service provision in this area following on from an internal audit review highlighting some areas of improvement in practice was required. This highlights that once again the Committee has sought to ensure that the work of the Committee on internal controls is fully integrated with the Authority's wider commitment to Best Value and continuous improvement in service provision.
- i) Governance: the Committee considered draft standards advice from the Standards Officer on declarations of interest and a Convenor's role in managing the process of declarations prior to the issue of a final advisory note on this subject to the full Board.
- j) Training: the Committee agreed to undertake training on the role and purpose of Audit & Risk Committees in the public sector. Provision of training has been delayed and will now be put in place following confirmation of members of the Committee by the Board for the forthcoming year, 2017/18.

Internal Audit

- 8. The Committee agree an annual internal audit work programme presented by the internal auditor.
- 9. Over the course of the period of this report, BDO have presented eight 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.
- 10. Table One presents a summary of the number and degree of significance of internal audit findings over the period of this report and compares this with historic levels. The definitions used for significance of internal audit recommendations have changed slightly with the change in internal audit provider from KPMG to BDO. These definitions are given after the table. The areas audited are also classified in terms of overall effectiveness of the internal audit control systems reviews and these classifications are also explained below the table.

Table One: Summary of Internal Audit Findings

Internal Audit Study	Number of Recommendations			
	Critical	High	Moderate	Low
2011/12 Total (7 studies)	0	3	14	9
2012/13 Total (4 studies)	0	0	0	10
2013/14 Total (7 studies)	0	1	9	11
2014/15 Total (4 studies)	0	0	5	13
2015/16 Total (9 studies)	0	0	9	10
2016/17 Total (9 studies)	n/a	0	11	12
	Overall Effective-ness	High	Medium	Low
The 2016/17 studies were:				
Project Financing (Dec 16)	1	-	-	2
LEADER Administration (Dec 16)	1	-	-	-
Financial Processes (March 17)	1	-	1	2
Tomintoul and Glenlivet Landscape Partnership Project Financial Leadership (May 17)	2	-	1	1
Pensions Administration (May 17)	1	-	-	2
Information Technology General Controls (Sep 17)	3	-	8	3
Grant Funding (Sep 17)	2	-	1	1
LEADER Compliance with Service Level Agreement (Sep 17)	1	-	-	-
Corporate Governance (Sep 17)	1	-	-	1
Total for period	n/a	-	11	12

Key - BDO definition of significance of audit recommendations:

- a) **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.
- b) **Moderate:** 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.
- c) **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.

Internal Control Effectiveness Categories

- a) 1 = Substantial: There is a sound system of internal control designed to achieve system objectives.
 - b) 2 = Moderate: Generally a sound system of internal control designed to achieve system objectives with some exceptions.
 - c) 3 = Limited: System of internal controls is weakened with system objectives at risk of not being achieved.
 - d) 4 = No Assurance: Poor system of internal control
11. The Committee welcomes the fact that once again there have been no critical or high priority recommendations have been raised by internal audit over the course of the period covered by this report.
12. In many organisations, only high priority recommendations which are typically considered to have strategic importance are brought to the attention of the Audit & Risk Committee. In practice, and in line with the Authority's values of transparency, the Committee is made aware of all recommendations made by the internal auditors, through consideration of full management reports following each audit review.
13. The Committee also welcomes the continuation of a relatively small number of total recommendations for improvement in systems and controls arising from the various reviews conducted, which has continued a trend seen by the Committee in recent years.
14. The Committee has agreed management responses to all recommendations made and continues to monitor progress made. The internal auditors have also conducted follow-up reports and report back to the Committee on their findings.
15. We note there is one area of control reviewed, on Information Technology General Controls, where half of all recommendations made in the year have been identified. While none of these recommendations are at a "high" level of significance, the overall number of recommendations produces a limited level of assurance in this area. Management have provided an action plan setting out action to address these limitations by the end of January 2018.
16. The Committee has considered the Internal Auditors' Annual Report for 2016/17. The internal auditor's annual report for the year gives the following overall opinion that risk management, control and governance arrangements were operated with sufficient effectiveness to provide reasonable assurance overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

External Audit

17. The Authority's accounts for 2016/17 received a clear, unqualified external auditor's report and opinion from Grant Thornton, our external auditors.

18. Grant Thornton were appointed as the Authority's external auditors with effect of audit of the 2016/17 accounts for a 5 year term by the Auditor General for Scotland.
19. The accounts and external auditor's report for 2016/17 were considered and approved by the Committee. The accounts were signed by the Chief Executive as Accountable Officer on 29 September 2017, and passed to Audit Scotland for signature and onward submission to Auditor General and Scottish Parliament. The later date for signature was approved to recognise the increasing complexity of the Authority's financial management and consequent accounts work as it deals with the various requirements of its role as Accountable Body for a number of major third party funded programmes of activity, namely LEADER and Tomintoul and Glenlivet Landscape Partnership.
20. The Audit & Risk Committee considered Grant Thornton's Draft External Audit Report to the Board and the Auditor General for Scotland on the audit of the 2016/17 accounts at its meeting of 29 September 2017. The report highlighted only one point in the action Plan of medium significance for future consideration by management, which has been accepted, and management responses and action timetables endorsed by the Committee.
21. The external audit report notes that the financial statements were prepared on a timely basis and working papers were to a good standard. External audit testing provided reasonable assurance on all areas of significant and other audit risks identified in the external audit plan.

Strategic Risk Management

22. The Authority's strategic risk register has now been revised throughout the year by the Committee and full Board, ensuring it reflects the delivery priorities and strategic environment of the Authority in its delivery of our Corporate Plan for 2015 to 2018. The Board has sight of the strategic risk register and is able to comment on it twice each year, while considering wider corporate performance reports. The Audit & Risk Committee will continue to review the coverage and adequacy of the strategic risk register in those quarters where it is not presented to the full Board.
23. The strategic risk register in its current form is presented at Annex I to this report.
24. Management has implemented the recommendations of internal audit on approaches to risk over the course of the year, including the development of a formal Risk Management Strategy for approval by the Committee and the instigation of detailed reviews of key risks and their mitigation.

Conclusions

25. The Audit & Risk Committee considers that it has been successful in progressing the Board's governance and internal control priorities during the period covered by this annual report.

26. The Committee has engaged 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. The Committee has shaped and approved the overall audit plan and guided the direction and approach of the internal auditors and their programme of work. The Committee has also monitored delivery against approved action plans.
27. Both the internal and external auditors' findings provide assurance to the Committee and Board that the Authority's internal control and governance objectives are being met effectively by management.
28. It is also reassuring for Committee members to see once again that only a few typically low priority recommendations have been raised by the internal auditors over the course of the year. While it is accepted that there will always be a range of improvements than can be made to services and controls, and as such a number of recommendations for improvement from internal audit will be expected, the Committee warmly welcomes the evidence of generally effective control systems evidenced by the reports and very low level of improvement recommendations arising from audits over the year. The Committee does however note the exception posed by the review of the Information Technology Controls review and will seek an update on delivery of actions soon after their due date, early in 2018.
29. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
30. The Committee will also seek to continue to have oversight of the Authority's approach to and handling of risk management, and of wider aspects of corporate governance such as the approach to Best Value and value for money. In particular, members will seek to ensure that lessons are learned from operational experience and that wherever possible reviews of working practices and learning from them lead to improvements in our systems.

David Cameron, for Audit & Risk Committee members:

Dave Fallows (Convener)

Becky Badger

Jeanette Gaul

Fiona Murdoch

John Latham

8 September 2017 davidcameron@cairngorms.co.uk