

**CAIRNGORMS NATIONAL PARK AUTHORITY
AUDIT COMMITTEE**

Title: THE AUDIT FUNCTION – ROLE OF THE AUDIT COMMITTEE

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Purpose

To provide the Committee with background briefing about the audit function, and the responsibilities of the Committee.

Recommendations

- Head of Corporate Services to prepare a report on the current state of internal control systems;
- Head of Corporate Services to prepare a specification as a basis for tendering for an appointing an internal auditor.
- Both reports to be brought to the next meeting of the Audit Committee (proposed date 30 January), with a view to putting in hand a tendering exercise for inviting bids and appointing an internal auditor by March.

Executive Summary

The paper outlines the functions of the internal and external auditor, and the role of the CNPA audit committee.

THE AUDIT FUNCTION – ROLE OF THE AUDIT COMMITTEE

The Audit Function

1. Audit is the process of checking and scrutinising the use of resources (financial and other) by the organisation. Very broadly there are two elements:
 - checking the CNPA's accounts for regularity and propriety;
 - ensuring that resources are being used as efficiently, effectively and economically as possible. This includes scrutinising the internal control systems, risk management arrangements, and corporate governance.
2. In a public body such as the CNPA the audit function is carried out by two auditors. One is the **external auditor**, appointed by the CNPA's founding legislation (see below) to look after the public interest by checking that the organisation is using public funds appropriately. The **internal auditor** is appointed by the CNPA to provide an independent and objective opinion to the Accountable Officer (the Chief Executive) on the internal control systems, risk management, and corporate governance of the organisation. Its role is to help the management improve these facets of the organisation.

External Audit

3. The National Parks (Scotland) Act specifies (section 25(2)) the Auditor general for Scotland (AGS) as our external auditor. The AGS has written appointing an officer of Audit Scotland as our auditor – Bob Clark of Audit Scotland. He has been invited to the first meeting of the audit committee to describe his role, how he expects to conduct his audit, and the programme and timetable of his work. A summary is set out below of the external auditor's role.
4. The auditor will audit the CNPA's expenditure and receipts and examine their regularity and propriety. He will have access to the NPA's books and records (by virtue of the Public Finance and Accountability (Scotland) Act) for the purposes of carrying out examinations into the economy, efficiency and effectiveness with which the NPA has used its resources in discharging its functions.
5. Audits are designed to provide sufficient relevant and reliable evidence to support the conclusions expressed by the auditor's certificates. It is an on-going exercise throughout the financial year and relies on a review of accounting systems and controls and a test examination of transactions. The timing of visits is normally agreed in advance. If the auditor is not satisfied on any of the matters specified in section 22(1) and (2) of the PFA Act, an explanation will be sought from the NPA, and if this is not satisfactory, the auditor's opinion will be qualified. The matters under section 22(1) and (2) include:
 - Whether expenditure and receipts shown in the account were incurred or applied in accordance with the necessary statutory authority; with the relevant Budget act authority; and with any applicable guidance issued by Scottish Ministers;

- Whether sums paid out of the Scottish Consolidated fund were paid out and applied in accordance with the relevant legislation;
 - Whether the account complies with any applicable accounts direction.
6. At the conclusion of the audit the auditor will prepare a report for publication together with the accounts consisting of the auditors detailed opinion on the accounts including the reason for any qualification(s). At the same time the auditor will provide an “Annual Audit Report” to the NPA and the AGS summarising the auditor’s opinions and conclusions, and where appropriate, matters of substance or significant issues arising from the audit. The annual audit report will not be published with the accounts, but may give rise to a separate report by the AGS which will be published with the accounts. While the contents of the reports for publication are for the auditors and the AGS to determine (respectively), the NPA will be given the opportunity to comment before such reports are finalised.
7. Following completion of the annual audits the auditor will send management reports or letters to the accountable officer, to draw attention to material areas of weakness in systems and controls and to provide advice on making improvements.

Internal Audit

8. The CNPA’s Management Statement and Financial Memorandum sets out a requirement that the NPA appoints an internal auditor, as follows:

The NPA will establish and maintain arrangements for internal audit in accordance with the Treasury’s Government Internal Audit Standards (GIAS). The CNPA shall consult the Department [i.e. SEERAD] to ensure the latter is satisfied with the competence and qualifications of the Head of Internal Audit and the requirements for approving appointment.

The CNPA shall arrange for periodic quality reviews in its internal audit in accordance with the GIAS. The Department shall consider whether it can rely on these reviews to provide assurance on the quality of internal audit. However the Department reserves the right of access to carry out/commission independent reviews of internal audit in the Authority.

9. The NPA is required to set up an Audit Committee as a Committee of the Board in accordance with the relevant guidance in the SPFM, namely that the Audit committee
- Is a committee of the Board to whom it is accountable and should report on a regular basis;
 - Should have written terms of reference
 - Should comprise at least 3 non-executive members and be chaired by someone who is not Chair of the CNPA or any of its Committees. The Accountable Officer should attend but not as a voting members of the Committee.
 - Should meet the external auditor s once per year.
10. Internal audit should provide an independent and continuing appraisal of an organisation’s internal control system and take the action needed to provide the

accountable officer with a continuing assurance that the organisation's internal control systems are adequate and effective.

11. The internal control system comprises the whole network of systems established in the organisation to provide reasonable assurance that the organisational objectives will be achieved, with particular reference to:
 - Risk management;
 - The effectiveness of operations;
 - The economical and efficient use of resources;
 - Compliance with applicable policies, procedures, laws and regulations;
 - Safeguards against losses, including those arising from fraud, irregularity or corruption;
 - The integrity and reliability of information and data.

12. Internal audit should:
 - Analyse the internal control system and establish a review programme;
 - Identify and evaluate the controls which are established in systems to achieve objectives in the most economic and efficient manner;
 - Report findings and conclusions and where appropriate make recommendations for improvement;
 - Provide an opinion on the reliability of the controls in the system under review;

13. A number of internal control systems are currently in place. They need to be kept under close review as the organisation grows, especially in view of the fact that some systems have necessarily (in the timeframe prescribed in the Designation Order for setting up the CNPA) been built on systems inherited from the Cairngorms Partnership which was a smaller organisation. Additional control systems will also need to be put in place. A system for Risk assessment and management is not yet in place, but arrangements are in hand to implement this in the New Year.

14. As Accountable Officer I am well aware of the importance of having an agreed work plan for identifying and implementing a set of effective control systems, which (most importantly) are properly "embedded" in the NPA's day to day operations.

Role of the Audit Committee

15. The remit of the CNPA's Audit Committee was agreed at the Board meeting on 27 June 2003 as follows:
 - a) To agree appointment of an internal auditor;
 - b) To oversee and monitor the development of the CNPA's internal audit plan (in accordance with the Scottish Public Finance Manual);
 - c) To receive and consider reports by the internal auditor;
 - d) To monitor the adequacy of the CNPA's internal control systems;
 - e) To consider reports by the external auditor on the CNPA's annual accounts and other matters;
 - f) To oversee the CNPA's arrangements for ensuring use of resources economically, efficiently and effectively (as required by s.19 of the National Parks (Scotland) Act 2000);

- g) To oversee the CNPA's arrangements for risk management and corporate governance.
16. The membership was agreed as Eric Baird, Sally Dowden, Sheena Slimon, Bob Wilson, Duncan Bryden. Staff in attendance will be The Chief Executive (as Accountable Officer) and Head of Corporate Services. The External and Internal Auditors will be invited to attend as required, and will in any event be sent copies of all Audit Committee papers.
17. The Audit Committee's function is, in brief, to question, probe and scrutinise the control systems which govern the operations of the organisation, with a view to ensuring the activities of the CNPA are proper, efficient, effective, and value for money. It is there to help the Accountable Officer promote a climate of financial discipline and control which will help reduce the opportunity for financial mismanagement. Section 4 of the guide "On Board" (given to all Members last April) describes the audit function and is recommended reading for Members of the Committee.

Next Steps

18. I propose as next steps that I commission from the Head of Corporate Services a report on the current state of internal control systems, and a specification for a contract for appointing an internal auditor. Both reports would be brought to the next meeting of the Audit Committee in the New Year, with a view to putting in hand a tendering exercise for inviting bids and appointing an internal auditor by March.

Frequency of Meetings

19. It is proposed that the Audit Committee generally meet quarterly. However, in view of the need to make progress with the appointment of the internal auditor, it is proposed that the next meeting be provisionally fixed for 30 January (a Planning Committee day) to agree a tender specification, as well as receive a report on internal control systems.

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