

CAIRNGORMS NATIONAL PARK AUTHORITY

FOR DECISION

Title: **AUDIT & RISK COMMITTEE ANNUAL REPORT**

Prepared by: **DAVID CAMERON, DIRECTOR OF CORPORATE SERVICES**

Purpose

To present the draft 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 2018 to September 2019.

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 2018 to September 2019.

Overview

3. The period of this Annual Report covers consideration of final accounts for 2018/19, 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 ongoing 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.
 - b) Detailed Risk Analysis: the Committee has continued the practice in the year of considering more in-depth analyses 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 an opportunities to explore key or increasing strategic risks in more detail and evaluate the adequacy of mitigation actions. The Committee has considered a detailed analysis of the risks associated with the Authority's risk position regarding the UK's planned exit from the EU; Workforce Management Risks and IT Management Risks during this reporting period.
 - 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 ongoing relationships between the Authority as Accountable Body for Cairngorms LEADER and the Scottish Government teams responsible for national LEADER delivery and review.

- 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. There were no significant variations to accounting policy required in the year.
- 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 at its meeting on 3 May 2019. This report highlighted good progress in dealing with a backlog of actions addressing audit implementation from 2017/18, built up while the Authority's staff prepared for the EUROPARC 2018 Conference amongst other priorities. Of the audit recommendations made, 59% had been fully or partially implemented, or action had been superseded as a consequence of other work within the Authority, while a further 26% were not yet due for completion. Therefore, only 15% of audit recommendations did not have expected action taken on them – representing 2 “medium” priority and five “low” priority recommendations.
- g) **Consideration and agreement of forward audit activity plans:** the Committee, has agreed a forward plan of internal audit activity for 2019/20 with BDO, within a risk-based, rolling, three year internal audit programme. The Committee also agreed the plan for the 2018/19 annual accounts external audit and oversaw progress in delivery of that external audit plan.
- h) **Best Value and Complaints Handling:** the Committee has also undertaken a regular overview of the Authority's complaints handling. This highlights that 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) **Letter of representation:** the Committee considered the draft letter of representation from the Authority to Grant Thornton, the external auditor, prior to its signature by the Accountable Officer as an appropriate reflection of the Authority's position for preparation of the accounts for 2018/19 and conduct of the Authority's financial and wider control procedures over the course of the year.

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 (8 studies)	n/a	0	11	11
2017/18 Total (3 studies)	n/a	0	3	7
2018/19 Total (9 studies)	n/a	1	6	10
	Overall Effective-ness	High	Medium	Low
The 2018/19 studies were:				
Business Performance Management (Nov 18)	1	-	-	1
LEADER Administration Processes (Nov 18)	1	-	1	-
Partnership Management (Nov 18)	1	-	-	2
Resource Planning (Nov 18)	2	-	-	3
Strategic Planning (Mar 19)	1	-	-	-
Financial Planning (Mar 19)	1	-	-	-
Business Continuity (May 19)	3	1	5	1
LEADER Administration Processes (Sep 19)	1	-	-	-
Risk Management Processes (Sep 19)	1	-	-	3
Total for period	n/a	1	6	10

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

- d) 1 = Substantial: There is a sound system of internal control designed to achieve system objectives.
 - e) 2 = Moderate: Generally a sound system of internal control designed to achieve system objectives with some exceptions.
 - f) 3 = Limited: System of internal controls is weakened with system objectives at risk of not being achieved.
 - g) 4 = No Assurance: Poor system of internal control
11. The Committee welcomes the fact that, while there has been a high level recommendation raised in this reporting period, the number of recommendations over a wide range of internal audit review areas remain low in number and typical priority. Design and implementation of control systems are typically rated as substantial or moderate.
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. The Committee has considered the Internal Auditors' Annual Report for 2018/19. In terms of the Authority's engagement with internal audit, the report notes that "Management have been conscientious in review and commenting on our reports. For the reports which have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are being put in place."
16. The internal auditor's annual report for the year gives the following overall opinion: "The risk management activities and controls in the areas which we examined were

found to be suitably designed to achieve the specific risk management, control and governance arrangements, with the exception of the business continuity plan, where further work is required. Based on our verification reviews and sample testing, risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute assurance that the related risk management, control and governance objectives were achieved for the period under review, in all areas except business continuity.”

External Audit

17. The Authority’s accounts for 2018/19 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 2018/19 were considered and approved by the Committee at its meeting of 6 September 2019. The accounts were signed by the Chief Executive as Accountable Officer on 6 September 2019, and passed to Audit Scotland for signature and onward submission to Auditor General and Scottish Parliament. This maintained the accelerated accounts sign off by around one month compared with the 2016/17 timetable.
20. The Audit & Risk Committee considered Grant Thornton’s report to those charged with governance on the audit of the 2018/19 accounts at its meeting of 6 September 2019. The report highlighted only one action point, noting that ongoing work is required to develop the performance report accompanying the accounts. This action was accepted by management and indeed is an action which management were already also progressing. There is an expectation that as the Authority progresses through the current 4 years of Corporate Plan delivery, there will be opportunity to focus more on Key Performance Indicators and make the performance report more concise. The Director of Corporate Services is aware that the content and structure of the performance report is a matter that is under review by a number of organisations and their Audit and Risk Committees, and therefore the Authority is not alone in facing this action.
21. The external audit report also highlights that the single action arising from the prior year external audit had been satisfactorily closed. This had also been the case in the audit of the 2017/18 financial statements, continuing to highlight appropriate management attention to audit recommendations for improvement.

Strategic Risk Management

22. The Authority’s strategic risk register has continued to be revised during 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 2018 to 2022. 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.

Conclusions

23. 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.
24. 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.
25. The Committee has also led on the prioritisation of aspects of the Authority's Strategic Risk environment which have merited detailed, "deep dive" strategic risk reviews.
26. 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.
27. 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 always 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.
28. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
29. 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:

Judith Webb (Chair)

Gaener Rodger (Vice Chair)

Peter Argyle

John Latham

Janet Hunter

29 August 2019 davidcameron@cairngorms.co.uk