

## CAIRNGORMS NATIONAL PARK AUTHORITY

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### 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 Board is requested to:**

- a) **Consider the report.**

#### **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 2017 to September 2018.

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## AUDIT & RISK COMMITTEE ANNUAL REPORT – FOR DECISION

### 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 2017 to September 2018.

### Overview

3. The period of this Annual Report covers consideration of final accounts for 2017/18, 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 three 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 Strategic Risk Register to support delivery of the new Corporate Plan for 2018/2022.
  - b) Detailed Risk Analysis: the Committee has continued the practice in the year of considering 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 Committee has considered a detailed analysis of the risks associated with the Authority's role as Accountable Body for the Cairngorms LEADER programme.

- 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. 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 31 August. This report highlighted a higher than usual number of outstanding actions and recommendations not yet implemented. However, the Committee considered the position was understandable given the resources required over the course of the year to project manage the office extension and the EUROPARC Conference. The Committee was also reassured by a commitment from senior management to address these outstanding actions as a matter of priority in the remaining months of 2018/19.
- g) Consideration and agreement of forward audit activity plans: the Committee has agreed a forward plan of internal audit activity for 2018/19 with BDO, within a risk-based, rolling, three year internal audit programme. The Committee also agreed the plan for the 2017/18 external audit and oversaw progress in delivery of that external audit plan.
- h) Best Value: the Committee has considered 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 received this informative report at its meeting of 31 August, with this work complementing earlier work on ICT security and the delivery of the Scottish Government's Cyber Security Action Plan.
- i) Best Value and Complaints Handling: 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.

- j) 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 2017/18 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
	Overall Effectiveness	High	Medium	Low
The 2017/18 studies were:				
Digital Communications and Social Media Strategy (Feb 18)	2	-	2	3
Project Management (Feb 18)	2	-	1	2
Financial Reporting (May 18)	1	-	-	2
Information and Communications Advisory Review	n/a	n/a	n/a	n/a

Internal Audit Study	Number of Recommendations			
	Critical	High	Moderate	Low
Total for period	n/a	-	3	7

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 once again there have been no critical or high priority recommendations 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. We note there have been fewer reports covered over the course of the last 12 month period. However, this is simply a timing issue, with four reports scheduled to be considered at the Committee's meeting in November 2018.
  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 2017/18. 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. 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.”

### **External Audit**

17. The Authority’s accounts for 2017/18 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 2017/18 were considered and approved by the Committee. The accounts were signed by the Chief Executive as Accountable Officer on 31 August 2018, and passed to Audit Scotland for signature and onward submission to Auditor General and Scottish Parliament. This accelerated accounts sign off by around one month compared with the 2016/17 timetable.
20. The Audit & Risk Committee considered Audit Scotland’s report to those charged with governance on the audit of the 2017/18 accounts at its meeting of 31 August 2018. The report highlighted only one action point, noting that as the Accountable Body for the Cairngorms LEADER Programme, the Authority remains exposed as liable for irregularities identified in expenditure claimed and highlighting that it is critical that the Authority’s management to continue to engage with Scottish Government to ensure that expenditure incurred on behalf of the LEADER programme can be recovered. This action was accepted by management and the Committee and indeed is an action which management were already progressing and had been the subject of specific reports to the Committee, as noted elsewhere in this Annual Report.
21. The external audit report also highlights that the single action arising from the prior year external audit had been satisfactorily closed.
22. The external audit report notes that “the draft financial statements produced by management were of a high standard with complete information and good supporting working papers.”

### **Strategic Risk Management**

23. The Authority’s strategic risk register has now been 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 new 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.

24. The strategic risk register in its current form will be presented to the Board elsewhere on the agenda for the December 2018 meeting when it will also consider this report.

## 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 that 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.
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)**  
**John Latham**

**Janet Hunter**  
**Judith Webb**  
**23 November 2018**

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