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CAIRNGORMS NATIONAL PARK AUTHORITY  
Audit Committee Paper 1 Annex 1 09/12/11

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

# **Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority**

2011-12 to 2013-14 Strategic internal audit plan  
and 2011-12 annual audit plan

17 October 2011

This report is for:

**Action**

*Audit committee*

**Information**

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National Park)*

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**Notice: About this report**

This Report has been prepared on the basis set out in our Engagement Letters addressed to the Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (“the Clients”) dated 15 June 2011 (the “Services Contracts”) and should be read in conjunction with the Services Contracts. Nothing in this report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Services Contracts. This Report is for the benefit of the Clients only. This Report has not been designed to be of benefit to anyone except the Clients. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Clients, even though we may have been aware that others might read this Report. We have prepared this report for the benefit of the Clients alone. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Clients) for any purpose or in any context. Any party other than the Clients that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, through the Clients’ Publication Scheme or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Clients. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Clients alone, this Report has not been prepared for the benefit of any other central government body nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example those who work in the central government sector or those who provide goods or services to those who operate in the central government sector.

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**Executive summary**

Internal audit's roles are to: assess how operating risks are being managed and controlled throughout both Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority ("the Authorities") and report to executive management and the audit committee on the results of these assessments; and influence the continuous development of the risk management and control process through sharing best practice.

This strategic and annual internal audit plan sets out the scope of the planned work to be undertaken by internal audit for 2011-12 and the longer term strategic plan to 2014. These plans were developed based on consideration of the following:

- discussion with members of the senior management team;
- consideration of both authorities risk registers, at February 2011, as developed and provided by management;
- the operating environment and state of control as identified through discussion with management; and
- consideration of key business processes.

Through these activities, potential internal audits were identified and prioritised for 2011-12 based on those areas viewed as of greatest benefit given the existing control environment. The following reviews are planned for 2011-12:

- financial management and planning and efficiency savings;
- community engagement / stakeholder satisfaction;
- workforce management;
- risk management;
- visitor engagement; and
- controls risk self-assessment.

We have agreed to undertake a number of joint internal audit reviews across the Authorities. This will efficient delivery of our internal audit plan and will allow comparison of key controls and processes where relevant. We therefore provide a joint internal audit plan for the Authorities.

**Your internal control process comprises all aspects of control, including managerial, operational and financial. It embraces not only the internal control objectives of the authorities, but also the requirements of relevant legislation and of external regulators.**

### Background

Internal audit is an independent appraisal of the adequacy, effectiveness, and sustainability of the internal control process operating in an organisation. Internal audit supports the Board, audit committee and executive management in achieving strategic and operational objectives and in discharging their corporate governance responsibilities. Internal audit's roles are to: assess how operating risks are being managed and controlled throughout the Authorities and report to executive management and the audit committee on the results of these assessments; and influence the continuous development of the risk management and control process through sharing best practice.

Internal audit is not itself part of the internal control system, nor is it responsible for internal control or for compliance, which remains the responsibility of management. Internal audit's work will normally include, but is not restricted to:

- reviewing risk management and internal control processes developed and maintained by management to ensure achievement of agreed strategic and operational goals and objectives;
- assessing compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations;
- identifying arrangements to ensure safe custody of assets and, where appropriate, verifying the existence of assets; and
- considering the robustness of arrangements to ensure the efficient and effective use of resources.

### Independence

Independence is established by organisational status through reporting lines and by members of internal audit carrying out their duties freely and objectively.

Independence and objectivity will be deemed to be impaired if internal audit staff are required to carry out any executive or operational duties. In order to assure the independence of internal audit, the prime upward reporting line will be to the audit committee.

A reporting line to senior management is required for day to day and administrative purposes, such reporting is to the head of finance and management information of Loch Lomond & The Trossachs National Park and the corporate services director of Cairngorms National Park.

### Approach

To deliver an efficient audit we will, where appropriate, undertake joint reviews across the Authorities. Each review will be tailored to ensure that it is appropriate for each Authority. This will also allow us to identify and report on areas of best practice between each Authority. We have also agreed to prepare a joint audit plan to the Authorities, maximising audit delivery within the agreed audit days.

**Our audit plan is informed through identification of key risks facing both Authorities.**

### Risk assessment

Our audit plan is informed through consideration of the risks facing the Authorities. Our analysis is based on:

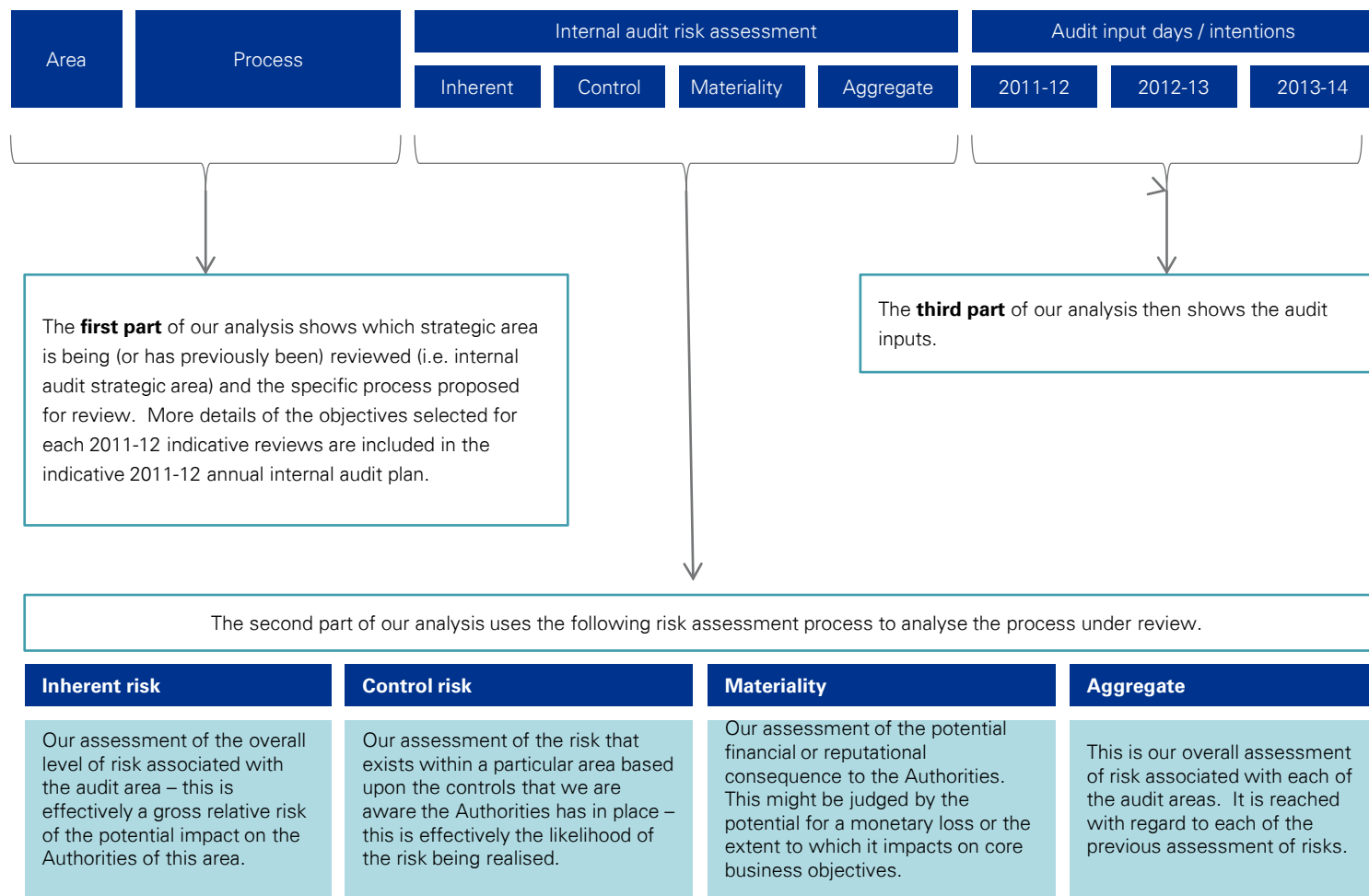
- discussion with members of the senior management team;
- consideration of both authorities risk registers, at February 2011, as developed and provided by management;
- the operating environment and state of control as identified through discussion with management; and
- consideration of key business processes.

Based on our assessment of the Authorities' risk registers we have identified key areas that we will focus our reviews. We have grouped together systems and processes under four headings, which indicate the strategic area that will be covered by the internal audit plan:

Grouping	Description
Financial	Financial risks, including Scottish Government funding cuts and reductions in other funding, including partnership funding, as well as increasing cost pressures.
Operational	Risks to the successful delivery of operations at the Authorities, including the risk of non-achievement of aims and targets, inadequate staffing resource, inadequate performance of partners and the impact of economic decline on operational delivery.
Reputational	Reputational risks include visitor reputation, as well as wider risks such as risks, to the ecosystems.
Probity	The risk of inadequate corporate governance or risk management arrangements, as well as compliance with relevant regulations.

**Our internal audit risk assessment process underpins our internal audit strategy**

We have used the following internal audit risk assessment process to analyse the processes under review



## Internal audit strategy (continued)

Area	Process	2011-12 internal audit plan reference	Internal audit risk assessment				Audit coverage								
			Inherent	Control	Materiality	Aggregate	2011-12			2012-13			2013-14		
							L	C	Tot	L	C	Tot	L	C	Tot
Financial	Financial management, planning and efficiencies	1	High	Medium	High	High	6.5	6.5	<b>13</b>	-	-	-	3	3	<b>6</b>
	Partnership working	-	High	Medium	Medium	Medium	-	-	-	4	4	<b>8</b>	3	3	<b>6</b>
	EU funding applications	-	Medium	Medium	Medium	Medium	-	-	-	-	3	<b>3</b>	-	-	-
	Commercial income generation	2	High	High	Medium	High	4.5	1.5	<b>6</b>	-	-	-	-	-	-
Operational	Community engagement / stakeholder satisfaction	3	High	High	Medium	Medium	3	3	<b>6</b>	-	-	-	-	-	-
	Workforce management	4	Medium	Medium	High	High	3	3	<b>6</b>	-	-	-	-	-	-
	Staff performance management	-	Medium	Medium	Medium	Medium	-	-	-	-	-	-	4	4	<b>8</b>
	Performance management	-	Medium	Medium	High	Medium	-	-	-	4	4	<b>8</b>	-	-	-
	Charging scheme	-	High	High	Medium	High	-	-	-	3.5	-	<b>3.5</b>	-	-	-
	Enforcement charter	-	Medium	Medium	Medium	Medium	-	-	-	-	-	-	1.5	1.5	<b>3</b>

## Internal audit strategy (continued)

Area	Process	2011-12 internal audit plan reference	Internal audit risk assessment				Audit coverage								
			Inherent	Control	Materiality	Aggregate	2011-12			2012-13			2013-14		
							L	C	Tot	L	C	Tot	L	C	Tot
Reputational	Visitor reputation	-	Medium	Medium	High	Medium	-	-	-	3	3	6	2	2	4
	Ecosystems	-	Medium	Medium	Medium	Medium	-	-	-	-	-	-	1.5	1.5	3
Probity	Controls risk self-assessment	5	Medium	Medium	Medium	Medium	3	3	6	2.5	2.5	5	3	3	6
	Corporate governance and risk management	6	High	High	High	High	-	3	3	3	-	3	-	-	-
	Regulatory compliance	-	Medium	Medium	High	Medium	-	-	-	-	-	-	2	2	4
TBC	CNPA specific review TBC	-	-	-	-	-	-	-	-	-	3.5	3.5	-	-	-
						<b>Total days</b>	20	20	40	20	20	40	20	20	40
						<b>Contract management</b>			9			9			9
						<b>Total internal days</b>			49			49			49



## Summary of planned internal audits 2011-12

Ref	Internal audit area	Risks	High level indicative summary scope	Estimated days 2011-12
1	Financial management and planning and efficiencies	<ul style="list-style-type: none"> <li>Financial management arrangements are insufficiently developed to respond to changes in the external financial environment.</li> <li>Corporate and strategic aims and objectives are not achieved due to a lack of proactive financial planning.</li> <li>Efficiency savings are not achieved on a recurring basis.</li> <li>Management is unable to demonstrate efficiency savings.</li> </ul>	<p>There is a significant degree of uncertainty over levels of future funding, including Scottish Government funding, partnership funding, commercial income and other income. Management requires robust financial management, planning and reporting systems and that an appropriate culture is embedded at strategic and operational levels. This goes beyond the requirement to ensure that monthly management accounts and financial reports are accurate and reliable; ensuring that projects included within the strategic review, together with scenario planning, are accurately reflected in financial plans in a timely and robust manner.</p> <p>This joint review will consider, and compare:</p> <ul style="list-style-type: none"> <li>financial governance and leadership, including challenge and capacity;</li> <li>financial and operational planning, including the degree to which the two are linked and scenario planning is undertaken;</li> <li>finance for decision-making, including the robustness of base data; and</li> <li>the extent to which recurring efficiency savings, rather than cost cutting, schemes are demonstrable and sustainable.</li> </ul>	13
2	Commercial income generation	<ul style="list-style-type: none"> <li>Goods and services are not appropriately charged for.</li> <li>Commercial income recognition is not complete.</li> <li>Commercial activities are undertaken or approved at the expense of other park priorities, such as environmental protection.</li> </ul>	<p>Pressures from reductions in Scottish Government income and increases in costs increase the importance of generating commercial income. It is important that opportunities for income generation are identified and that all appropriate income is captured and recognised in the accounting ledgers.</p> <p>This joint review will consider, and compare:</p> <ul style="list-style-type: none"> <li>the level and type of commercial income generated by each Authority;</li> <li>arrangements to ensure that all income is captured and particularly, at the correct rate;</li> <li>processes for considering and approving new commercial income streams; and</li> <li>how management ensures goods and services are appropriately charged for.</li> </ul>	6

## Summary of planned internal audits 2011-12 (continued)

Ref	Internal audit area	Risks	High level indicative summary scope	Estimated days 2011-12
3	Community engagement / stakeholder satisfaction	<ul style="list-style-type: none"> <li>Services are not appropriately targeted to stakeholders.</li> <li>Opportunities to work with and / or engage stakeholders are not identified.</li> <li>Insufficient communication with stakeholders leads to reputational damage.</li> </ul>	<p>Engagement with the wider community, including partners, local authorities and residents is essential to ensure that services meet stakeholder needs.</p> <p>This joint review will consider, and compare:</p> <ul style="list-style-type: none"> <li>the level and means of engagement with the wider community, including partners, local authorities and residents;</li> <li>arrangements to ensure that surveys are reported to senior management and incorporated into the decision making process; and</li> <li>the impact of stakeholder engagement on operations and strategies.</li> </ul>	6
4	Workforce management	<ul style="list-style-type: none"> <li>Failure to achieve strategic objectives.</li> <li>Inability to manage staff performance and retain key talent.</li> <li>Mis-alignment of personal, department and Authority-wide objectives.</li> </ul>	<p>Achievement of the strategic plans requires engagement by all staff and alignment of goals and objectives should contribute to strategic performance.</p> <p>This joint review will assess the extent to which:</p> <ul style="list-style-type: none"> <li>strategic goals are appropriately cascaded across operational and support functions and down through lines of reporting and accountability;</li> <li>the staff performance management framework is used to retain and manage talent;</li> <li>Management supports continuous improvement in staff performance; and</li> <li>performance against objectives is assessed in a robust and evidence-based manner.</li> </ul>	6

## Summary of planned internal audits 2011-12 (continued)

Ref	Risks	High level indicative summary scope	Estimated days 2011-12
5	Control risk self-assessment	<ul style="list-style-type: none"> <li>Key controls over financial processes do not prevent or detect fraud, error or non-compliance in a timely manner.</li> <li>Key financial processes do not address identified risks or provide the required assurance.</li> </ul>	6

This control risk self-assessment is a key element of our annual plan to provide assurance over key financial systems.

We will select a sample of financial controls at each Authority and test whether:

- the control is designed appropriately and implemented i.e. whether the control is designed appropriately to manage stated risks; and
- the control is operating effectively i.e. whether the control is operating in line with procedures and in a timely manner.

In the event of significant weaknesses or control omissions being identified during this review we would seek to discuss changes to the 2010-11 and future internal audit plans, where appropriate.

Financial systems included in this review:

- purchase to pay;
- income receivable;
- project accounting;
- cash and treasury management;
- VAT; and
- financial ledger.

Our review will test controls at both Authorities. In evaluating the results of our work, we will compare the systems and processes at each Authority to enable sharing of best practice and areas for improvement.

## Summary of planned internal audits 2011-12 (continued)

Ref	Internal audit area	Risks	High level indicative summary scope	Estimated days (2011-12)
6	Risk management	<ul style="list-style-type: none"> <li>Risk management arrangements are not embedded at an operational level.</li> <li>Arrangements facilitate a process, but do not assist management in managing risk.</li> </ul>	We have agreed with management to provide a risk management workshop for both Authorities to support management, through our expertise, in the development of effective risk management. This will include risk reporting arrangements and subsequent oversight and challenge at management and committee level.	3

# Appendices

## Appendix one

# Key performance indicators

We recognise the importance of implementing a performance framework that allows stakeholders to measure the contribution from internal audit. To monitor and demonstrate this, we will report our performance against key performance indicators to each audit committee, which is important to us and of value to you.

Key Performance indicator	Target
Internal audit days completed in line with the agreed timetable	100%
Undertake internal audit needs assessment and prepare the strategic and annual internal audit plan in line with management deadline	100%
Compliance with mandatory internal audit standards	100%
Draft scopes provided no later than 15 working days before the internal audit start date and final scopes no later than five days before each start date	100%
Draft reports issued within five days of exit meeting	100%
Management provide responses to draft reports within five days of receipt	100%
Final reports issued within five days of receipt of management responses	100%
Quarterly progress reports to be provided for discussion at each audit committee meeting	100%
Draft annual internal audit reports to be provided by 30 April each year	100%
To co-operate with requests received by each Authority's external auditors for information and meetings without undue delay	100%
Attendance by a senior member of staff at annual contract review meetings	100%
Attendance at quarterly audit committee meetings by a senior member of staff	100%
Contact details of a nominated contact from the firm to be made known to staff and to make themselves available to any member of staff contacting them to discuss any matters arising under the Authorities' whistle-blowing policy	100%

## Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with management for prioritising internal audit findings according to their relative significance depending on their impact to the process.

Rating	Definition	Examples of business impact	Action required
Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Potential financial impact of more than 1% * of total expenditure.</li> <li>• Detrimental impact on operations or functions.</li> <li>• Sustained, serious loss in brand value.</li> <li>• Going concern of the organisation becomes an issue.</li> <li>• Decrease in the public's confidence in the Authority.</li> <li>• Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty.</li> <li>• Life threatening.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires immediate notification to the Authority's audit committee.</li> <li>• Requires executive management attention.</li> <li>• Requires interim action within 7-10 days, followed by a detailed plan of action to be put in place within 30 days with an expected resolution date and a substantial improvement within 90 days.</li> <li>• Separately reported to chairman of the Authority's audit committee and executive summary of report.</li> </ul>
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Potential financial impact of 0.5% to 1% * of total expenditure.</li> <li>• Major impact on operations or functions.</li> <li>• Serious diminution in brand value.</li> <li>• Probable decrease in the public's confidence in the Authority.</li> <li>• Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty.</li> <li>• Extensive injuries.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires prompt management action.</li> <li>• Requires executive management attention.</li> <li>• Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months.</li> <li>• Reported in executive summary of report.</li> </ul>

\* Materiality is quantified on page 16.

## Classification of internal audit findings (continued)

Rating	Definition	Examples of business impact	Action required
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Potential financial impact of 0.1% to 0.5%* of total expenditure.</li> <li>• Moderate impact on operations or functions.</li> <li>• Brand value will be affected in the short-term.</li> <li>• Possible decrease in the public's confidence in the Authority.</li> <li>• Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty.</li> <li>• Medical treatment required.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires short-term management action.</li> <li>• Requires general management attention.</li> <li>• Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months.</li> <li>• Reported in executive summary of report.</li> </ul>
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>• Potential financial impact of less than 0.1%* of total expenditure.</li> <li>• Minor impact on internal business only.</li> <li>• Minor potential impact on brand value.</li> <li>• Should not decrease the public's confidence in the Authority.</li> <li>• Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty.</li> <li>• First aid treatment.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires management action within a reasonable time period.</li> <li>• Requires process manager attention.</li> <li>• Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months.</li> <li>• Reported in detailed findings in report.</li> </ul>

\* Materiality is quantified on page 16.



## Classification of internal audit findings

The definitions of the materiality used to classify the impact of our findings are detailed below and are based on the 2009-10 financial statements.

Rating	Definition	Loch Lomond & The Trossachs National Park Authority	Cairngorms National Park Authority
Critical	Potential financial impact of more than 1% of total expenditure	Greater than £80,000	Greater than £50,000
High	Potential financial impact of 0.5% to 1% of total expenditure	Between £40,000 and £80,000	Between £25,000 and £50,000
Moderate	Potential financial impact of 0.1% to 0.5% of total expenditure	Between £8,000 and £40,000	Between £5,000 and £25,000
Low	Potential financial impact of less than 0.1% of total expenditure	Less than £8,000	Less than £5,000



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