

CAIRNGORMS NATIONAL PARK AUTHORITY

FOR DISCUSSION

Title: AUDIT COMMITTEE ANNUAL REPORT

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Purpose

To present the Audit Committee Annual Report to the Board.

Recommendation

The Board is requested to consider the annual report to the Board, set out in the paper and to:

- a) Consider the report and discuss any issues raised by the Committee's work in the year.**
- b) Note the report.**
- c) Note the updated strategic risk register supporting delivery of the 2012 to 2015 Corporate Plan.**

Executive Summary

The Audit 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 Committee to cover the period of its operations from October 2013 to September 2014.

AUDIT COMMITTEE DRAFT ANNUAL REPORT – FOR DISCUSSION

Background

1. The Audit 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 Committee to cover the period of its operations from October 2013 to September 2014.

Overview

3. The period of this Annual Report covers consideration of final accounts for 2013/14, together with associated reports from Audit Scotland, 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 covered by this report represents the third year of delivery of internal audit services by KPMG, under a contract let jointly with Loch Lomond and the Trossachs National Park Authority (LLTNPA).
6. The Committee met four times over the period covered by this report.
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 Committee has continued to take a strategic oversight of the Authority's risk management strategy and regularly considered the strategic risk register. Reports presented have indicated risk trends allowing the impact of risk mitigation action to be assessed. The current, revised strategic risk register is presented at Annex I to this paper.
 - b) 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 reports from the internal auditors on this area, with the 2013 review conducted in September and the report considered in December 2013, and the 2014 internal audit of LEADER undertaken in May 2014 prior to Scottish Government's final Monitoring and Accreditation visit and considered by the Audit Committee in June 2014.
 - c) Scottish Government Procurement Capability Assessment: the Committee has received updates on the implementation of this work. Overall, the PCA assessment shows an improved score of 66% in 2013, up from 55% in 2012 and 2011. This consolidates the Authority's position in the second tier of "improved" assessment. The assessment shows an improved score in 4 of 8 categories with scores remaining at 2012 levels in the other 4 categories. The PCA assessment of procurement leadership and governance is now assessed in

the top tier of “superior” performance, as is the status of procurement strategy and objectives. Both these areas of investment in procurement capability reflect and recognise work done by Corporate Services management, the Management Team and the Audit Committee over the course of 2012/13. These two aspects of procurement capability now join “people” as 3 of 8 categories meeting the superior criteria.

- 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 have been no significant changes to the Authority’s accounting policies in 2013/14.
- 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: officers have presented regular progress updates on the implementation of audit recommendations. These officer reports have been highlighted by internal auditors as establishing best practice. The internal auditors will also undertake formal follow-up reviews of action taken on previous recommendations.
- g) Internal Audit contract: the Committee has agreed to enter into the first of a possible two year extension to the current internal audit contract allowed for by the terms of the previous procurement process, with KPMG therefore continuing as internal auditor for 2014/15.
- h) Consideration and agreement of forward internal audit activity plans: the Committee, in conjunction with the members of the LLTNPA Audit Committee, agree a forward plan of internal audit activity for each year, within a risk-based three year internal audit programme.
- i) Best Value: the Committee considered an internal review of the Authority’s position as assessed against revised Scottish Government guidance on delivering Best Value, and agreed an associated action plan and risk schedule, in September 2013. A review of progress against this action plan is scheduled for September 2014.

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, KPMG have presented seven 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. Table One presents a summary of the internal audit findings over the period of this report.

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
Financial Controls (Dec 13)	-	-	2	2
Financial Management, Planning and Efficiencies (Dec 13)	-	-	-	1
LEADER 2013 Review (Dec 13)	-	-	1	2
Regulatory Compliance (Mar 14)	-	1	2	1
Carbon Management and Internal Sustainability Reporting (Mar 14)	-	-	1	3
IT General Controls (Mar 14)	-	-	3	2
LEADER 2014	-	-	-	-
2013/14 Total (7 studies)	0	1	9	11

Key - KPMG definition of categorisation of recommendations:

- a) **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".
 - b) **High:** "issue represents a control weakness which could have or is having **major adverse effect** on the ability to achieve process objectives".
 - c) **Moderate:** "issue represents a control weakness which could have or is having **significant adverse effect** on the ability to achieve process objectives".
 - d) **Low:** "Issue represents a minor control weakness, with **minimal but reportable impact** on the ability to achieve process objectives".
10. The Committee welcomes the fact that once again no critical or top priority recommendations have been raised by internal audit over the course of the 12 months covered by this report. Only 1 of 21 recommendations received a high priority.

11. According to the priority definitions, only critical priority recommendations need be brought to the attention of the Audit Committee. In practice, and in line with the Authority's values of transparency, the Committee is aware of all recommendations made by the internal auditors, through consideration of full management reports following each audit review.
12. The Committee also welcomes this relatively small number of 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.
13. 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. The Committee reviewed a report in the year from the internal auditors noting that progress in implementing agreed recommendations had not always been as quick as expected. While the Committee has accepted that other organisational priorities may have overtaken implementation of changes to address relatively low level audit priorities we have asked that management now address the implementation of outstanding improvements as a matter of priority.
14. All planned and agreed internal audit work the period was undertaken.
15. The Committee has considered the Internal Auditors' Annual Report for 2013/14. The internal auditor's annual report for each year concludes: "**that the authority's systems provide a reasonable basis for maintaining control and that the control framework provides reasonable assurance regarding the effective and efficient achievement of strategic objectives.**"

External Audit

16. The Authority's accounts for 2013/14 received a clear, unqualified external auditor's report and opinion from Audit Scotland, our external auditors.
17. The accounts and external auditor's report for 2013/14 were considered and approved by the Committee in on 27 June 2014, noting a few very minor final amendments required. Accounts were subsequently signed on 27 June 2014.
18. The Accounts were returned from the Auditor General's office with approval to lay before Parliament with no further reports required on 14 July 2014.
19. This closure timetable represents a return to the closure timetable targeted and achieved in 2012 and previous years, following on from a delay experienced in 2013 as a result of outstanding reconciliations required around LEADER fund management and outstanding debtor balances.
20. The Audit Committee considered Audit Scotland's report to those charged with governance on the audit of the 2013/14 accounts at its meeting of 27 June 2014. The report highlights there were no material weaknesses in the accounting and internal control systems identified during the audit. For 2013/14 only one significant finding was reported as arising during the course of the audit:

- a) Fixed Asset Register: noted that not all fixed assets were tagged, leading to audit difficulty in reconciling the register and a risk recognised that non-current assets may be materially mis-stated.
21. The Audit Committee also considered Audit Scotland's annual report on the 2012/13 audit at its meeting in September 2013. Issues arising in that report of significance to be addressed by management in addition to the fixed asset register matter identified previously are:
- a) Financial Planning: recognising need to continue work already started on longer term financial planning in context of expected ongoing public sector funding difficulties.
 - b) Coding restructure in financial system': need to evaluate effectiveness of revised coding structure in providing effective management information.
22. The external audit report concludes that: "Overall the Park Authority's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our review of the key controls within the main financial systems, we concluded that the systems of internal control are operating effectively."

Strategic Risk Register

23. The Strategic Risk Register supporting delivery of the Authority's Corporate Plan 2012 to 2015 is set out at Annex I to this report.
24. Following the Committee members' work with staff in fully renewing the risk register to reflect our collective assessment of key risks faced by the Authority in delivering its Corporate Plan objectives, the Committee have continued to oversee risk management processes and seek to ensure appropriate risk management actions are implemented. The risk register focuses very much on the work of the Authority itself, rather than a wider risk assessment of the priorities set out within the National Park Partnership Plan (NPPP) and the collective delivery of those NPPP aims.
25. The Strategic Risk Register records the key risks facing the organisation (the "inherent" risk to delivery of objectives) together with proposed "mitigation" actions aimed at reducing the overall risk (leaving the "residual" risk). Risk trends are shown to allow variation in operating environment and / or the impact of risk management actions to be highlighted. All strategic risks have been allocated to a specific senior manager of group to take responsibility for risk management in this area of operations.
26. New risks faced by the organisation will also be considered and included in the strategic risk register if appropriate on an ongoing basis, with existing risks removed once considered to have effective mitigation arrangements in place.

Conclusions

27. The Audit 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.
28. The Committee warmly welcomes the maintenance of success in closing annual accounts and completing the external audit process promptly each year. The

Committee would like to take this opportunity in reporting to the Board to register its thanks to all staff involved in this process, and in particular to Daniel Ralph and the Finance Team, and to the effective work of the Audit Scotland team led by Asif Haseeb.

29. There has been an engagement 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.
30. Both the internal auditors' finding of reasonable assurance regarding the effective and efficient achievement of strategic objectives within the Authority, and the external auditors' unqualified audit certificate, provide assurance to the Committee and Board that the Authority's internal control and governance objectives are being met effectively by management.
31. The Committee would like to bring to the Board's attention a comment from the external auditors that working papers this year were of a high standard and staff provided excellent support to the team.
32. It is also highly 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.
33. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
34. 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.

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