

CAIRNGORMS NATIONAL PARK AUTHORITY

FOR DECISION

Title: AUDIT COMMITTEE DRAFT ANNUAL REPORT

Prepared by: DAVID CAMERON, CORPORATE SERVICES DIRECTOR

Purpose

To present a draft Audit Committee Annual Report to the Board.

Recommendation

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

- a) Agree any amendments required.
- b) Approve the submission of the report to the Board, subject to incorporation of any amendments agreed.

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 September 2012 to September 2013.

AUDIT COMMITTEE DRAFT ANNUAL REPORT – FOR DECISION

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 September 2012 to September 2013.

Overview

3. The period of this Annual Report covers consideration of final accounts for 2012/13, 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 second 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 five times over the period covered by this report, including a strategic risk management workshop with members of senior staff supported by KPMG.
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 led the complete renewal of the Authority's Strategic Risk Register to ensure the risks identified in the register are relevant to the current 2012 to 2015 Corporate Plan. The Committee participated in a workshop to identify and prioritise risks, and have since considered potential mitigation actions and residual risks should those actions be successfully implemented. The finalised, 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.
 - c) Scottish Government Procurement Capability Assessment: the Committee has received updates on the implementation of this work.
 - d) Accounting Policy: the Committee reviewed and agreed revised accounting policies dealing with reporting of intangible assets held by the Authority. This policy addresses the open reporting of the value of software and would also be relevant for any future brand development activity. The Committee considered within this policy deliberation the appropriate accounting treatment

of the National Park brand, with a decision that while the overall brand management remains to a great extent at arms length from the Authority it remains appropriate not to account for the NP brand as an intangible asset. This position will be reviewed as the management arrangements for the brand itself are reviewed.

- 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) 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.

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 four 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
Financial Controls (Mar 13)	-	-	-	5
Performance Management (Mar 13)	-	-	-	2
Partnership Working (June 13)	-	-	-	2
Visitor Experience (June 13)	-	-	-	1
2012/13 Total (4 studies)	0	0	0	10

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 highest priority recommendations have been raised by internal audit over the course of the 12 months covered by this report. In fact, only 10 recommendations for improvements in systems and controls have been highlighted from 4 new audit reports received in the 12 month period, with all 10 recommendations being graded as “low” 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.
14. All scheduled internal audit work the period was undertaken.
15. The Committee has considered the Internal Auditors’ Annual Report for 2011/12. 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 2012/13 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 2011/12 were signed on 16 August 2013. This represents a delay over closure timetables achieved over the previous 3 to 4 years. While the Committee had hoped to approve accounts for signature at its meeting of 21 June, in line with previous years’ timetables, at that point information from the Authority’s pension providers remained outstanding. Also, staff had not at that point been able to fully reconcile the Authority’s financial position as the lead Authority for the Cairngorms LEADER LAG. This position had been complicated by an ongoing national LEADER file review as a result of wider concerns around national eligibility of some forms of projects. Consequently, some 9 months of grant claims remained outstanding at the point of drawing together final accounts,

compounded by difficulty for the new Interim Finance Manager in working through assumptions and working papers left by the previous manager.

18. The Annual Report and Accounts were submitted to the Auditor General on 26 August and should be laid before Parliament by the end of September.
19. The Audit Committee has considered Audit Scotland's report on the audit of the 2012/13 accounts.
20. The report highlights there were no material weaknesses in the accounting and internal control systems identified during the audit. Significant findings reported as arising during the course of the audit were:
 - a) Reconciliation of trade receivables as they relate to LEADER opening and closing balances for 2012/13. This issue relates to one of the causes of delay in closure of the final audit, as reported at item 17.

Conclusions

21. 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.
22. 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 to the effective work of the Audit Scotland team led by Asif Haseeb.
23. 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.
24. 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.
25. It is also reassuring to see that no top 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 welcomes the evidence of generally effective control systems evidenced by the reports.
26. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.

27. The Committee has also implemented a wider range of review of the period, to encompass consideration of how well the Authority delivers its overall corporate and operational plan objectives. These reviews have fully met the Committee's remit of considering accuracy of accounting treatments and strength of internal control systems; implementation of effective risk management systems; and, more widely, effective, efficient and economic use of the Authority's resources in delivering our objectives.

DAVID CAMERON
davidcameron@cairngorms.co.uk
3 September 2012