



cutting through complexity

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

Strategic plan and 2013-14 annual internal audit plan

DRAFT 4 September 2013

This report is for:

Action

Audit committee

Information

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	Page
Introduction and background	2
A tailored and risk-based approach to internal audit	5
Internal audit strategic plan	6
2013-14 annual internal audit plan	9
Appendix one: key performance indicators	14
Appendix two: internal audit charter	15

Notice: About this report

This Report has been prepared on the basis set out in our Engagement Letter addressed to the Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority dated 28 June 2011 (the "Services Contract") and should be read in conjunction with the Services Contract. 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 Contract. This Report is for the benefit of the Client only. This Report has not been designed to be of benefit to anyone except the Client. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Client, even though we may have been aware that others might read this Report. We have prepared this report for the benefit of the Client alone. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Client) for any purpose or in any context. Any party other than the Client that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, through the Client's 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 Client. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Client alone, this Report has not been prepared for the benefit of any other health 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 health sector or those who provide goods or services to those who operate in the central government sector.

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Background

Internal audit is an independent appraisal of the adequacy and effectiveness of the internal control process operating in an organisation. Internal audit supports the Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority ("the Authorities") and senior management in achieving agreed 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 and report to senior 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.

Introduction

This strategic and annual internal audit plan sets out the scope of the planned work to be undertaken by internal audit for 2013-14. These plans were developed based on consideration of the following:

- the previous year's internal audit plan;
- observations and key findings arising from internal audits conducted during 2012-13;
- discussion with members of the senior management teams;
- consideration of the risk registers;
- comments from the chairs and members of the audit committees;
- requirements for internal audit;
- changes in the operating environment and state of control as identified through discussion with management; and
- consideration of key business processes.

This internal audit plan uses your risk registers as the basis for identifying and prioritising internal audit work. We have refreshed the presentation of our plan, categorising risks and internal audit coverage across four areas:

- 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 success of 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.

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

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 the risk management and internal control processes developed and maintained by management to ensure the 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 effective and efficient 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 is to the audit committee. An executive reporting line is required for day to day and administrative purposes, such executive reporting is to the corporate services director.

Public sector internal audit standards

The UK Public Sector Internal Audit Standards Advisory Board (“IASAB”) was established in March 2012 by the bodies responsible for setting internal audit standards within the public sector, namely:

- CIPFA;
- HM Treasury;
- Department of Health;
- the Scottish Government;
- the Welsh Government; and
- the Department of Finance and Personnel (Northern Ireland).

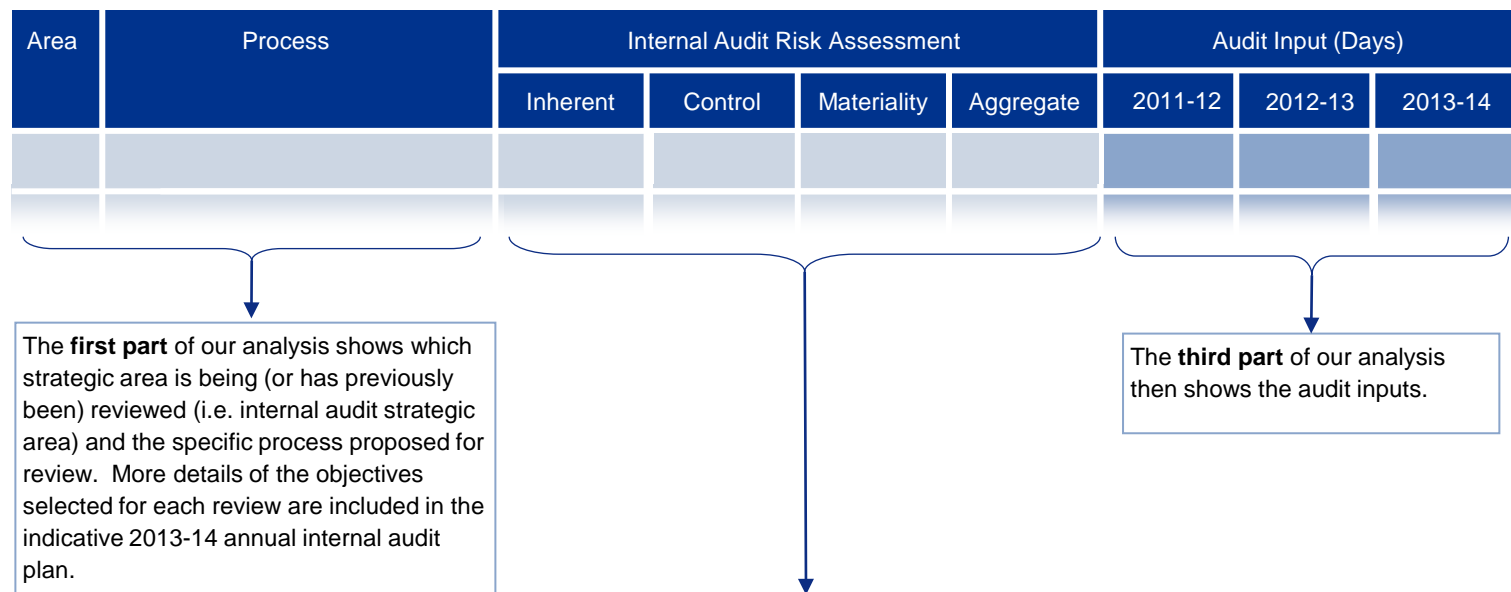
The IASAB has produced a common set of public sector internal audit standard (“PSIAS”), which require to be applied to the public sector from 1 April 2013; replacing the current internal audit standards. These encompass the mandatory elements of the Institute of Internal Auditors; International Professional Practices Framework (“IPPF”):

- the Definition of Internal Auditing;
- the Code of Ethics;
- International Standards for the Professional Practice of Internal Auditing.

In respect of the health sector these standards are now applicable. We anticipate that there will be limited impact upon the current internal audit service as KPMG’s internal audit services meets, and in many cases exceed, the requirements of the PSIAS. One area where action is required is the development and agreement of an internal audit charter (“charter”). We have included our proposed charter within appendix two.

A tailored and risk-based approach to internal audit

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



Inherent risk	Control risk	Materiality	Aggregate
Our assessment of the overall level of risk associated with the audit area – this is effectively a gross relative risk of the potential impact on the Authority of this area.	Our assessment of the risk that exists within a particular area based upon the controls that we are aware the Authority has in place – this is effectively the likelihood of the risk being realised.	Our assessment of the potential financial or reputational consequence to the Authority. This might be judged by the potential for a monetary loss or the extent to which it impacts on core business objectives.	This is our overall assessment of risk associated with each of the audit areas. It is reached with regard to each of the previous assessment of risks.

Risk category	Process	2012-13 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	13	-	-	-	3	3	6
	Partnership working	-	High	Medium	Medium	Medium	-	-	-	4	3	7	-	-	-
	LEADER review	3	Medium	Medium	Medium	Medium	-	-	-	-	5	5	-	4	4
	Commercial income generation	-	High	High	Medium	High	4.5	1.5	6	-	-	-	-	-	-
Total Days						11	8	19	4	8	12	3	7	10	

Internal audit strategic plan (continued)

Risk category	Process	2012-13 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	
Operational	Community engagement/stakeholder satisfaction	-	High	Medium	Medium	Medium	3	3	6	-	-	-	-	-	-
	Workforce management	-	Medium	Medium	High	High	3	3	6	-	-	-	-	-	-
	Staff performance management	-	Medium	Medium	Medium	Medium	-	-	-	-	-	-	-	-	-
	Performance management	-	Medium	Medium	High	Medium	-	-	-	4	3.5	7.5	-	-	-
	Charging scheme	-	High	High	Medium	High	-	-	-	3.5	-	3.5	-	-	-
	Planning processes and systems	2	Medium	Medium	Medium	Medium	-	-	-	-	-	-	4	3	7
	Total Days						6	6	12	7.5	3.5	11	4	3	7

Risk category	Process	2012-13 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 experience	-	Medium	Medium	High	Medium	-	-	-	3	3	6	-	-	-
	Carbon management/internal sustainability	6	Medium	Medium	Medium	Medium	-	-	-	-	-	-	4	3	7
						Total Days				3	3	6	4	3	7
Probity	Controls risk self-assessment	4	Medium	Medium	Medium	Medium	3	3	6	2.5	2.5	5	3	3	6
	Corporate governance and risk management	-	High	High	High	High	-	3	3	3	3	6	-	-	-
	Regulatory compliance	5	Medium	Medium	High	Medium	-	-	-	-	-	-	3.5	2.5	6
					Total Days	3	6	9	5.5	5.5	11	6.5	5.5	12	
	Audit committee training														3
	Follow-up of previous internal audit recommendations														3
	Contract Management							9				9			9
	Total Internal audit days							49				49			51

The composition of the 2013-14 internal audit plan is summarised below. The specific objectives, scope and approach of each internal audit will be agreed with the internal audit sponsor, and manager responsible for the process subject to internal audit, prior to the commencement of individual internal audit projects.

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
1	Financial management, planning and efficiencies	<ul style="list-style-type: none"> Financial management arrangements are insufficiently developed to respond to changes in the external financial environment. Corporate and strategic aims and objectives are not achieved due to a lack of proactive financial planning. 	<p>This review will be a follow up from our work in 2011-12 and will include review of:</p> <ul style="list-style-type: none"> budget setting and monitoring practices (for 2013-14 and beyond); linkages between strategic plans and budget models; embedding and monitoring of efficiency savings since 2011-12; and consideration of best practice against comparable organisations. 	3	3	6
2	Planning processes and systems	<ul style="list-style-type: none"> Development is approved that is not in line with the Parks' strategic goals (e.g. conservation). Unapproved development is undertaken within the Park boundaries. Planning approvals do not represent an appropriate mix of stakeholders. Reputational damage from any of the above. 	<p>This review will concentrate on processes and controls for planning applications. Decisions on planning approval require detailed knowledge of various local factors. Our review would not consider the outcome of these decisions, but rather that controls had operated effectively throughout the process.</p> <p>Our work would include:</p> <ul style="list-style-type: none"> review of processes for managing the approvals processes; review of embedding of National Parks Plans and local plans into planning processes; compare and contrast arrangements between the two parks; and consideration of consultations with stakeholders, where relevant. 	4	3	7

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
3	EU funding applications	<ul style="list-style-type: none"> ■ LEADER funding paid to applicants does not comply with Scottish Government guidance. ■ Records maintained are inadequate to evidence appropriate review and approval processes. 	<p>This review will build on our work in prior years and will include the following on a sample basis.</p> <ul style="list-style-type: none"> ■ review submitted grant claims and ensure calculations are accurate; ■ ensure these claims have been appropriately reviewed, approved and checked for compliance with internal requirements; ■ ensure payments made are accurate and made only following review and approval of claims; ■ test project closure processes and controls; and ■ consideration of best practice against comparable organisations. 	-	4	4
4	Controls risk self assessment	<ul style="list-style-type: none"> ■ Key controls over financial processes do not prevent or detect fraud, error or non-compliance in a timely manner. ■ Key financial processes do not address identified risks or provide the required assurance. 	<p>We will select a sample of financial controls at each Authority and test whether:</p> <ul style="list-style-type: none"> ■ 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. <p>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.</p>	3	3	6

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
5	Regulatory compliance	<ul style="list-style-type: none"> ■ Current regulatory requirements are not complied with resulting in financial and/or reputational damage. ■ New and/or evolving requirements are not identified early enough to ensure compliance. ■ Knowledge and training around regulatory requirements is not sufficient to ensure compliance. 	<p>Based on the identified risks we will:</p> <ul style="list-style-type: none"> ■ review internal risk assessments; ■ consider processes for identifying new/evolving regulatory requirements and whether relevant requirements have been identified. ■ review processes for monitoring compliance with existing requirements; ■ review processes for disseminating information on regulatory requirements and any related training or certification; and ■ consideration of best practice against comparable organisations. 	3.5	2.5	6
6	Carbon management / internal sustainability monitoring	<ul style="list-style-type: none"> ■ The Authorities' carbon footprints result in reputational damage through being seen to damage the environment. ■ The impact of the Authorities is not appropriately monitored leading to unforeseen increases in environmental impact. ■ Environmental indicators/KPIs are not accurate and therefore not reliable. 	<p>Our review will consider the processes and controls in place to measure the Authorities' Carbon footprint. This will include:</p> <ul style="list-style-type: none"> ■ consideration of processes to identify and capture relevant data underlying indicators; ■ review of calculations of indicators/KPIs to source data/relevant backup evidence; ■ review of the monitoring and reporting of indicators/KPIs and the results/impact of this; and ■ consideration of best practice against comparable organisations. 	4	3	7

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
-	Audit committee training	<ul style="list-style-type: none"> ■ Roles and responsibilities are not clearly understood resulting in ineffective working relationships. ■ Risk management processes are not clearly defined resulting in ineffective management. ■ Audit committee does not have an adequate skills mix impacting on the quality of decisions and actions. 	<p>Based on the identified risks we propose to cover the following areas:</p> <ul style="list-style-type: none"> ■ why audit committees have been put in place; ■ roles and responsibilities of the audit committee versus management; ■ the distinction between oversight and management; ■ effective communication of the audit committee; and ■ ensuring an effective audit committee. 	1.5	1.5	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 continue to report our performance against key performance indicators, 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%
Compliance with mandatory internal audit standards	100%
Draft reports issued within two weeks of exit meeting	100%
Final reports issued within two weeks of receipt of management responses and within two weeks of audit committee meeting	100%
Agreed timetable for billing and administrative procedures	100%
Ready access to core team members at all times	100%
Attendance at meetings of the audit committee and pre meeting with relevant director	100%
Draft annual internal audit report to be available by 30 April 2014	100%
Finalisation of the annual internal audit report by 30 June 2014	100%

Introduction

The Institute for Internal Auditors (“the IIA”) define internal auditing as: an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of an organisation. It assists organisations in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

Role

The internal audit service is established by the board, with responsibility delegated to the audit committee, and the internal audit activity's responsibilities are defined by the Authorities' audit committees as part of their oversight role.

Professionalism

The internal audit activity will govern itself by adherence to the IIAs' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (“Standards”). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The IIA's' practice advisories, practice guides, and position papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to the Authorities' relevant policies.

Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the Authorities' records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the board and audit committee.

Organisation

The Head of Internal Audit will report functionally to the audit committee and administratively (i.e. day to day operations) to the head of corporate services.

The audit committee will approve the internal audit charter and the risk based internal audit plan. It will also approve all decisions regarding the performance evaluation of the internal audit service. The Head of Internal Audit will communicate and interact directly with the audit committee, including in executive sessions and between audit committee meetings, as appropriate.

Independence and objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Internal Audit will confirm to audit committee, at least annually, the organisational independence of the internal audit activity.

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
- evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- evaluating the effectiveness and efficiency with which resources are employed.
- evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- monitoring and evaluating governance processes.
- monitoring and evaluating the effectiveness of the organisation's risk management processes.
- evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.

- reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the board, or audit committee.
- evaluating specific operations at the request of the board, or audit committee, or management, as appropriate.

Internal audit plan

At least annually, the Head of Internal Audit will submit to the audit committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal / calendar year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the audit committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the audit committee. Any significant deviation from the approved internal audit plan will be communicated to senior management and the audit committee through periodic activity reports.

Reporting and monitoring

A written report will be prepared and issued by the Head of Internal Audit, or designee, following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the audit committee.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

Internal audit will be responsible for appropriate follow-up on engagement findings and recommendations.

Period assessment

The Head of Internal Audit will periodically report to senior management and the audit committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board, or audit committee.

In addition, the Head of Internal Audit will communicate to senior management and the audit committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.



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