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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

6 September 2012

This report is for:

Action

Audit committee

Information

*Fiona Logan – chief executive
(Loch Lomond & The
Trossachs National Park)*

*Jane Hope – chief executive
(Cairngorms National Park)*

*David Cameron – corporate
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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 2012 (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 health 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 2012-13. 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 2011-12;
- 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.

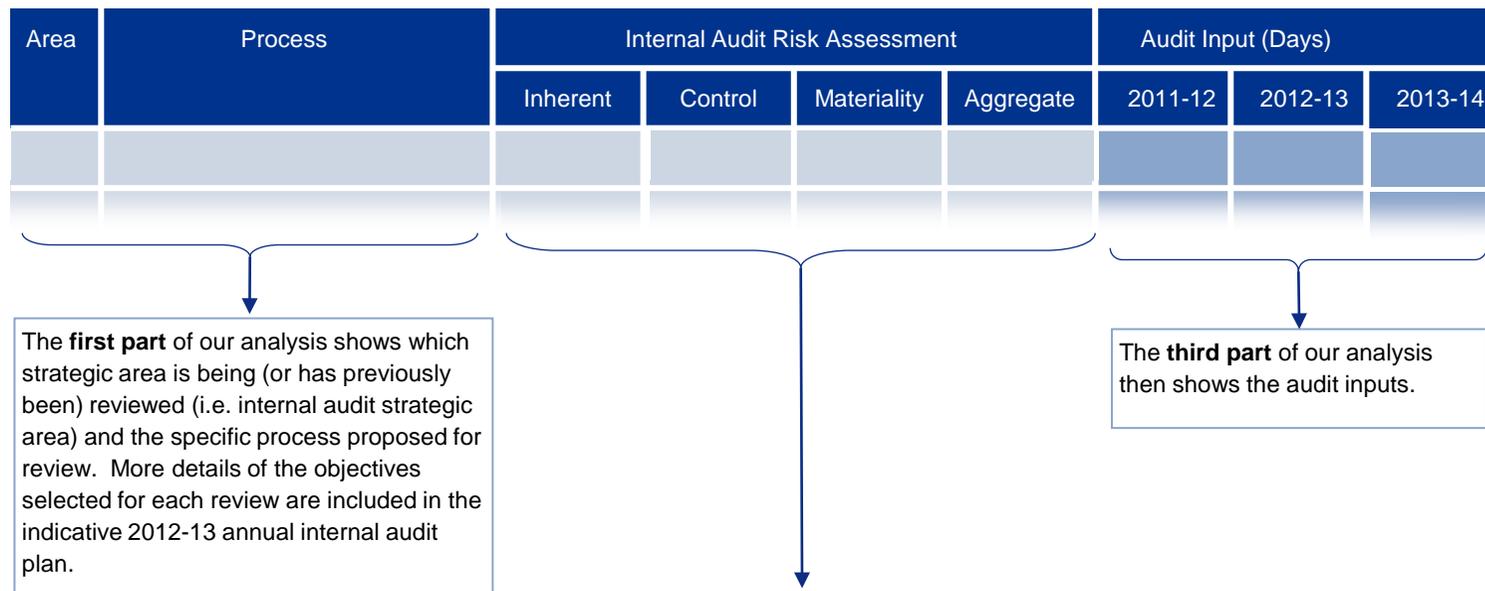
Independence

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.

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:



The **second part** of our analysis uses the following risk assessment process to analyse the process 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 Commission of this area.	Our assessment of the risk that exists within a particular area based upon the controls that we are aware the Commission has in place – this is effectively the likelihood of the risk being realised.	Our assessment of the potential financial or reputational consequence to the Commission. 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	-	High	Medium	High	High	6.5	6.5	13	-	-	-	3	3	6
	Partnership working	1	High	Medium	Medium	Medium	-	-	-	4	3	7	3	3	6
	EU funding applications	2	Medium	Medium	Medium	Medium	-	-	-	-	5	5	-	-	-
	Commercial income generation	-	High	High	Medium	High	4.5	1.5	6	-	-	-	-	-	-
Total Days						11	8	19	4	8	12	6	6	12	

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	High	Medium	Medium	3	3	6	-	-	-	-	-	-
	Workforce management	-	Medium	Medium	High	High	3	3	6	-	-	-	-	-	-
	Staff performance management	-	Medium	Medium	Medium	Medium	-	-	-	-	-	-	4	4	8
	Performance management	3	Medium	Medium	High	Medium	-	-	-	4	3.5	7.5	-	-	-
	Charging scheme	4	High	High	Medium	High	-	-	-	3.5	-	3.5	-	-	-
	Enforcement charter	-	Medium	Medium	Medium	Medium	-	-	-	-	-	-	1.5	1.5	3
	Total Days						6	6	12	7.5	3.5	11	5.5	5.5	11

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	
Reputational	Visitor reputation	5	Medium	Medium	High	Medium	-	-	-	3	3	6	2	2	4
	Ecosystems	-	Medium	Medium	Medium	Medium	-	-	-	-	-	-	1.5	1.5	3
						Total Days				3	3	6	3.5	3.5	7
Probity	Controls risk self-assessment	6	Medium	Medium	Medium	Medium	3	3	6	2.5	2.5	5	3	3	6
	Corporate governance and risk management	7	High	High	High	High	-	3	3	3	3	6	-	-	-
	Regulatory compliance	-	Medium	Medium	High	Medium	-	-	-	-	-	-	2	2	4
					Total Days	3	6	9	5.5	5.5	11	5	5	10	
	Contract Management							9			9			9	
	Total Internal audit days							49			49			49	

The composition of the 2012-13 annual 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	Partnership working	<ul style="list-style-type: none"> Partnership working is not aligned with strategic and operational goals. Partnership relationships are not effectively managed or leveraged. 	Our review of partnership working will include reviewing: <ul style="list-style-type: none"> the time and range of partnership working; records for managing partnership relationships; alignment of partnerships with strategy and goals; and the mentoring and reporting of partnership working 	4	3	7
2	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. 	This review will consider: <ul style="list-style-type: none"> procedures for review and approval of initial applications; procedures for review and checking of grant decisions when received; processes and controls to ensure payments are appropriate, accurate and are only made for approved grant claims; and the audit trail for grants, from applications, through to authorisation to payment. 	-	5	5

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
3	Performance management	<ul style="list-style-type: none"> The organisation does not perform to its best due to poor performance management arrangements. Performance management activities are not adequate to improve performance. Poor performance is not identified, and therefore not rectified in a timely manner. 	<p>Our review will consider:</p> <ul style="list-style-type: none"> overall performance management processes; the impact of performance management arrangements; the extent to which a culture of performance management is embedded in the organisations; and the integration of performance management with operational activities. 	4	3.5	7.5
4	Charging scheme	<ul style="list-style-type: none"> Income from charging scheme is incomplete. Income from charging scheme is inaccurate. Income from charging scheme is not recovered. 	<p>Our review of the charging scheme will include:</p> <ul style="list-style-type: none"> review of processes and controls to ensure income is complete, accurate and exists; consideration of the recoverability of income; and management monitoring of the charging scheme. 	3.5	-	3.5
5	Visitor reputation	<ul style="list-style-type: none"> Negative visitor experience on the organisations' reputation. Positive visitor experiences are not leveraged to their full advantage. 	<p>Our review of visitor reputation will include:</p> <ul style="list-style-type: none"> review of processes to manage the Authorities' reputation; and review of processes to obtain feedback on visitor experience, positive and negative, and respond accordingly. 	3	3	6

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
6	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>	2.5	2.5	5
7	Corporate governance and risk management	<ul style="list-style-type: none"> Risk management arrangements are not embedded at an operational level. Arrangements facilitate a process, but do not assist management in managing risk. 	<p>We have agreed with management to provide risk management workshops for both Authorities to support management, through our expertise, in the continued development of an effective risk management framework. This will include risk identification, scoring, monitoring and reporting to committees.</p>	3	3	6

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%
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%



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