

CAIRNGORMS NATIONAL PARK AUTHORITY

FOR DECISION

Title: AUDIT COMMITTEE DRAFT ANNUAL REPORT

Prepared by: DAVID CAMERON, HEAD OF CORPORATE SERVICES

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 2011 to September 2012.

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 2011 to September 2012.

Overview

3. The period of this Annual Report covers consideration of final accounts for 2011/12, 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 first 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 six times over the period covered by this report, including a joint Audit Committee training session with the members of the LLTNPA Audit Committee.
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 reviewed the Authority's Strategic Risk Register, approved at its meeting in April 2009, and had strategic oversight of the organisation's monitoring and management of risk. The most recent Strategic Risk Register, last considered in full in March 2012, is included with this report, at Appendix I. The Committee are currently considering arrangements for a strategic risk workshop with the objective of completely refreshing the risk register in light of the new National Park Partnership Plan and CNPA Corporate Plan.
 - 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) Procurement Policy: the Committee reviewed and agreed a procurement policy for the Authority, taking forward work in improving the organisation's procurement capabilities. The Committee noted plans for future work on the development of sustainable procurement guidance to accompany the policy, to

seek clarity on where opportunities may be taken within public procurement regulations for activity aimed at sustainable development of the economy within the National Park.

- e) Statement on Internal Control: 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 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
Financial Controls (Dec 11)	-	-	-	2
Income Generation (Mar 12)	-	-	1	-
LEADER 2011 (Mar 12)	-	2	1	-
Financial Planning (Jun 12)	-	1	3	1
Workforce Management (Jun 12)	-	-	4	2
Community Engagement (Jun 12)	-	-	4	2
LEADER 2012 (Sept 12)	-	-	1	2
Total	0	3	14	9

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.
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 high priority recommendations seen by the Committee over the course of the year, where internal audit would expect to see improvements in control systems put in place and giving substantial improvements in operations within 3 to 6 months were in the areas of:
- a) **LEADER Project commencement:** ensure control systems are in place and operational to comply with changes in technical guidance which, from December 2010, state that only expenditure incurred following receipt of signed offer letter constitute eligible expenditure.
 - b) **LEADER staffing costs:** ensure appropriate evidence is in place to justify all staff costs allocated against a project, and therefore that all staff costs claimed are directly related to a specific project.
 - c) **Financial planning:** ensure financial budgets are established prior to commencement of the financial year in question. This recommendation follows on from a situation for 2012/13 where, exceptionally, the budget for the year had not been fully approved by Finance Committee and / or Board pending final approval of the National Park Partnership Plan and associated Corporate Plan in May 2012.
13. The Committee has noted and welcomed that action has been taken and implemented on all “high” recommendations. The Committee has also noted and fully expects that it is likely that some delay will arise in final approval and adoption of financial budgets prior to years where a significant exercise such as consideration of a new 5 year National Park Partnership Plan and / or Corporate Plan are being undertaken.
14. The Committee also welcomes the relatively low 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.
15. 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.
16. All scheduled internal audit work the period was undertaken.

17. 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

18. The Authority's accounts for 2011/12 received a clear, unqualified external auditor's report and opinion from Audit Scotland, our external auditors.
19. The accounts and external auditor's report for 2011/12 were signed on 22 June. This embeds the improvements in financial closure periods implemented in previous years.
20. The Annual Report and Accounts were submitted to Scottish Government by mid July, well in advance of their deadline of 31 July.
21. The Audit Committee has considered Audit Scotland's Management Report on the audit of the 2011/12 accounts, and also Audit Scotland's Annual Report on the 2011/12 audit. The report highlights the following key risk areas:
- a) Announcement that the current Chief Executive is standing down and need to manage organisational risks arising from this, including hand-over arrangements where possible. The Audit Committee recognise that the Staffing and Recruitment Committee are fully aware of this risk and have mitigation measures in hand, facilitated by the significant lead time afforded by the Chief Executive in announcing her decision to stand down.
 - b) Delay in 2012/13 budget setting: as with the internal audit recommendation dealt with above, this risk follows on from the delay in finalising the 2012/13 budget pending finalisation of the NPPP and Corporate Plan. The Audit Committee recognise that the Finance Committee have effective oversight of the Authority's budget processes and were aware of the need to delay budget setting pending completion of other strategic planning processes.
 - c) Efficiency savings schemes: recognising the increasing difficulty in finding efficiency savings to meet the 3% target set by Scottish Government as part of the 2012/13 budget. Again, the Audit Committee are entirely content that the Finance Committee's monitoring includes oversight of risk around meeting efficiency savings targets within overall budget monitoring.
 - d) Best Value: there is a need to review and if required refresh the Authority's self assessment of delivery against Best Value requirements. The Audit Committee will pick this risk up as part of its ongoing work programme.

Conclusions

22. 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.

23. 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.
24. 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.
25. 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.
26. 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.
27. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
28. 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.

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3 September 2012