



*cutting through complexity*

CAIRNGORMS NATIONAL PARK AUTHORITY  
Audit Committee Paper 1 Annex 1 15/03/13

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

Internal audit report

Financial controls risk self-assessment

20 February 2013

This report is for:

## Action

*David Cameron – corporate services director (Cairngorms National Park)*

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## Information

*Audit committee*

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This Report has been prepared on the basis set out in our Engagement Letter addressed to Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (“the Clients”) dated 15 June 2011 (the “Services Contracts”) 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 Clients only. This Report has not been designed to be of benefit to anyone except the Clients. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Clients, even though we may have been aware that others might read this Report. We have prepared this report for the benefit of the Clients alone. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Clients) for any purpose or in any context. Any party other than the Clients that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, through the Clients’ 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 Clients. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Clients alone, this Report has not been prepared for the benefit of any other central government 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 central government sector or those who provide goods or services to those who operate in the sector.

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**Introduction and scope**

In accordance with the 2012-13 internal audit plan of Loch Lomond & The Trossachs National Park Authority (“LLTNPA”) and Cairngorms National Park Authority (“CNPA”), as approved by the audit committees, an exercise was performed to corroborate management responses to a control risk self-assessment questionnaire.

**Background**

The control risk self-assessment (“CRSA”) allows organisations to assess the design and effectiveness of controls over risks associated with key processes. The assessment is usually presented in the form of a questionnaire and is completed by ‘process owners’ who score each control to confirm whether it is operating. The information is then used by management to make an assessment, at a high level, of the internal control environment, based on the responses to the CRSA questionnaire and by taking into account remedial work that is underway to improve controls. Completion of the CRSA was led by Andrew Jump at LLTNPA and Alastair Highet at CNPA.

The overall objective of this review was to provide assurance over key financial systems through reviewing the appropriateness of the design of controls as well as how efficiently and effectively these controls operate. We identified six areas for inclusion in the CRSA: income and debtors, treasury and cash management, fixed assets, payroll and expenses, financial ledger and expenditure and creditors.

Controls were scored on the following basis:

Score	Description
n/a	Control is not applicable
0	Control is not performed
1	Control is rarely performed
2	Control is performed often
3	Control is performed all the time

Self assessed scores are summarised in the table opposite.

LLTTNPA achieved an overall score of 95%

CNPA achieved an overall score of 94%

Key processes	Authority	Number of assessment questions	Number of applicable questions	Potential score	Actual score	Percentage
Income and debtors	LLTTNPA	16	14	39	36	92%
	CNPA	15	11	33	31	94%
Treasury and cash management	LLTTNPA	15	10	30	30	100%
	CNPA	15	11	33	32	97%
Fixed assets	LLTTNPA	9	9	27	27	100%
	CNPA	10	10	30	27	90%
Payroll and expenses	LLTTNPA	12	12	36	33	92%
	CNPA	12	12	36	33	92%
Financial ledger	LLTTNPA	13	13	39	36	92%
	CNPA	13	12	36	35	97%
Expenditure and creditors	LLTTNPA	8	8	24	23	96%
	CNPA	8	8	24	23	96%
<b>Totals and overall average score</b>	<b>LLTTNPA</b>	<b>73</b>	<b>66</b>	<b>195</b>	<b>185</b>	<b>95%</b>
	<b>CNPA</b>	<b>73</b>	<b>64</b>	<b>192</b>	<b>181</b>	<b>94%</b>

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

## Introduction and background (continued)

Using our experience of the public sector within Scotland, we have compared the self-assessment scores to those provided by our other clients, as detailed below. This demonstrates that both authorities' control frameworks are in line with our wider sector experience.

	<b>Income and debtors</b>	<b>Treasury and cash management</b>	<b>Fixed assets</b>	<b>Payroll and expenses</b>	<b>Financial ledger</b>	<b>Expenditure and creditors</b>	<b>Totals and overall average score</b>
LLTNPA	92%	100%	100%	92%	92%	96%	95%
CNPA	94%	97%	90%	92%	97%	96%	94%
<b>Comparable entities</b>	<b>94%</b>	<b>95%</b>	<b>90%</b>	<b>99%</b>	<b>96%</b>	<b>95%</b>	<b>93%</b>

## Key findings and recommendations

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Management has accepted the findings and agreed reasonable actions to address the recommendations.

	Authority	Critical	High	Moderate	Low
Number of internal audit findings	LLTTNPA	-	-	1	4
	CNPA	-	-	-	5
Number of recommendations accepted by management	LLTTNPA	-	-	1	4
	CNPA	-	-	-	5

**We have identified a number of areas where there are opportunities to enhance the design and implementation of controls to mitigate the identified risks.**

### **Authorisation of sales invoices**

At LLTTNPA, sales invoices are reviewed to ensure the accuracy of the invoice before being issued to the customer. This is performed through the sales order form which is then signed as authorised. Of the fifteen sales invoices selected for testing, all had appropriate authorisation before being issued.

At CNPA, due to the nature of operations, there are significantly fewer sales invoices than at LLTTNPA. Of the two sales invoices selected for testing, neither had evidence of review before being issued. It is recommended that all sales invoices are reviewed before being issued to ensure that the invoice reflects the work completed. Evidence of review should be retained on file.

**Recommendation one**

### **Reconciliations**

At LLTTNPA, reconciliations are performed on a monthly basis and signed as reviewed. There was no evidence of who had prepared the reconciliations and they were not dated as prepared.

At CNPA, reconciliations are also performed on a monthly basis. For payroll reconciliations, there was no evidence of who had prepared the reconciliations and they were not dated as prepared. Bank reconciliations had been signed as prepared and reviewed but there was no evidence of the date they were reviewed.

It is recommended that all reconciliations are evidenced and dated as prepared and reviewed to provide a complete audit trail and confirm that there was appropriate segregation of duties and timely review over the preparation and review of reconciliations.

**Recommendation two**

### Changes to employee data

At CNPA and LLTNPA, changes to payroll standing data, such as salary levels, pension payments, tax rates, are only made when there is approval and support for the change. However there are no controls to ensure that changes to employee data are correct through issuing written confirmation or via the organisation's e-mail. There is a risk that changes are made to standing payroll data are incorrect and payments are made in error. It is recommended that when changes are made to payroll standing data that employees are sent appropriate confirmation to allow them to confirm the changes have been applied correctly.

### Recommendation three



### Authorisation of journals

At LLTNPA, journal forms are completed and signed as prepared for manual journals posted. However, journal forms are not signed as authorised. Sample testing also found that journal forms were not completed for banking transactions.

At CNPA, journals are printed and signed as authorised by the finance manager. However, journals are not signed and dated as prepared, or dated as reviewed. Furthermore, for a number of journals tested there was no supporting documentation attached.

It is recommended that all journal forms are completed for all journals, including bank transfers, which are signed and dated as prepared, signed and dated as authorised, and supporting documentation attached to the journal to provide a sufficient audit trail that the journal was raised appropriately and authorised. We note that journals in relation to banking transactions would only be for inter-account transactions for treasury management purposes.

**Recommendation four**

### Authorisation of purchase invoices

At LLTNPA, purchase orders are raised by budget holders and signed as authorised by a member of staff with the appropriate delegated authority. Of the 15 purchase invoices tested two did not have authorised purchase orders. It is recommended that all purchase orders are signed by someone with the appropriate level of delegated authority.

### Recommendation five

At CNPA, expenditure requisition forms are completed which are signed as authorised by a budget holder. Expenditure over £10,000 must be further authorised. Sample testing found that all invoices had corresponding expenditure requisition forms which had been appropriately authorised.

### New supplier checks

At LLTNPA, no new supplier reference checks are carried out. Managers raise a purchase order which is signed off by someone with delegated authority and if it is for a new supplier the supplier is set up on the system without any reference checks. Any items procured over £150 have to comply with the organisations procurement policy and quotes or tenders have to be sought. As part of this process suppliers will be checked, but this is not formally documented.

At CNPA, no formal supplier reference checks are carried out. Suppliers must supply information on letter headed paper to be set up on the system. Any items over £2,000 require quotes from suppliers where checks will be made, but supplier checks are not documented and retained on file.

It is recommended that supplier checks are formalised and that evidence is retained centrally for these to ensure only appropriate suppliers are paid.

### Recommendation six

## Action plan – CNPA

The action plan summarises specific recommendations, together with related risks and management's responses.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>1 Authorisation of sales invoices</b>		
<p>At CNPA, none of the five sales invoices selected for testing had evidence of review before being issued. In addition, two invoices had the same invoice number.</p> <p>There is a reputational risk that invoices are issued with inaccurate / incorrect information.</p>	<p>It is recommended that all sales invoices are reviewed before being issued to ensure that the invoice is correct. Evidence of review should be retained on file.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Agreed.</p> <p><b>Responsible officer:</b> Finance manager</p> <p><b>Implementation date:</b> December 2013</p>
<b>2 Reconciliations</b>		
<p>At CNPA and LLTNPA, reconciliations are performed on a monthly basis and signed as reviewed. There was no evidence of who had prepared the reconciliations and they were not dated as prepared. Furthermore, reconciliations were signed as reviewed, but not dated.</p> <p>Thus, there is an inadequate audit trail over segregation of duties. Also, there is a risk that reconciliations are not being reviewed timely as this could not be evidenced in all cases.</p>	<p>It is recommended that all reconciliations are evidenced and dated as prepared and reviewed to provide a complete audit trail.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Agreed. Templates to be enhanced to include evidence of preparer and reviewer.</p> <p><b>Responsible officer:</b> Finance manager</p> <p><b>Implementation date:</b> April 2013</p>

## Action plan – CNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<div style="display: flex; justify-content: space-between;"> <span><b>3 Changes to employee data</b></span> <span><b>Low</b></span> </div>		
<p>Changes to payroll standing data, such as salary levels, pension payments, tax rates, are only made when there is approval and support for the change. However, controls at both authorities could be improved to ensure that changes to employee data are correct through issuing written confirmation or via organisation's e-mail.</p> <p>There is a risk that changes are made to standing payroll data are incorrect and payments are made in error.</p>	<p>It is recommended that when changes are made to payroll standing data that employees are sent appropriate confirmation to allow them to confirm the changes have been applied correctly.</p>	<p>Agreed. We note that at both NPAs an individual's payroll data will only be changed on receipt of a written (including email) instruction or specific form, for example to change bank account details. As reassurance that any errors on changes processed would more than likely be picked up, employees are sent a pay check each month with their details on it so any errors would likely be picked up then.</p> <p><b>Responsible officer:</b> HR Manager / payroll advisor</p> <p><b>Implementation date:</b> April 2013</p>
<div style="display: flex; justify-content: space-between;"> <span><b>4 Authorisation of journals</b></span> <span><b>Low</b></span> </div>		
<p>At LLTNPA , journal forms are completed and signed as prepared for manual journals posted. However, journal forms are not signed as authorised. Sample testing also found that journal forms were not completed for banking transactions.</p> <p>At CNPA, journals are printed and signed as authorised by the finance manager. However, journals are not signed and dated as prepared, or dated as reviewed. Furthermore, for a number of journals tested there was no supporting documentation attached.</p>	<p>It is recommended that all journal forms are completed for all journals, including bank transfers, which are signed and dated as prepared and authorised, and supporting documentation attached to the journal to provide a sufficient audit trail that the journal was raised appropriately and authorised.</p>	<p>Agreed.</p> <p>The control system for authorisation of journals sits within a wider system of reconciliation of monthly accounts and management accounting processes. We agree that this could be further enhanced by actual sign off of journal entries to provide a more sufficient audit trail.</p> <p><b>Responsible officer:</b> Finance manager</p> <p><b>Implementation date:</b> December 2013</p>

## Action plan – CNPA (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>6 New supplier checks</b>		<b>Low</b>
<p>Formal supplier reference checks are not retained on file at either authority.</p> <p>While, there are processes in place to approve invoices prior to payment, there is a risk that supplier details may be added and a supplier paid which is not genuine.</p>	<p>It is recommended that the process for checking suppliers is formalised and evidence retained centrally to ensure only appropriate suppliers are paid.</p>	<p>Agreed.</p> <p>Checks carried out at each stage of procurement, but agree that this process should be more formalised and documented.</p> <p><b>Responsible officer:</b> Finance manager</p> <p><b>Implementation date:</b> September 2013</p>

The action plan summarises specific recommendations, together with related risks and management’s responses.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>2 Reconciliations</b></p> <p>At CNPA and LLTNPA, reconciliations are performed on a monthly basis and signed as reviewed. There was no evidence of who had prepared the reconciliations and they were not dated as prepared. Furthermore, reconciliations were signed as reviewed, but not dated.</p> <p>Thus, there is an inadequate audit trail over segregation of duties. Also, there is a risk that reconciliations are not being reviewed timely as this could not be evidenced in all cases.</p>	<p>It is recommended that all reconciliations are evidenced and dated as prepared and reviewed to provide a complete audit trail.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Agreed. Templates to be enhanced to include evidence of preparer and reviewer.</p> <p><b>Responsible officer:</b> Finance manager</p> <p><b>Implementation date:</b> April 2013</p>

## Action plan – LLT (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>3 Changes to employee data</b>		
<p>Changes to payroll standing data, such as salary levels, pension payments, tax rates, are only made when there is approval and support for the change. However, controls at both authorities could be improved to ensure that changes to employee data are correct through issuing written confirmation or via organisation's e-mail.</p> <p>There is a risk that changes are made to standing payroll data are incorrect and payments are made in error.</p>	<p>It is recommended that when changes are made to payroll standing data that employees are sent appropriate confirmation to allow them to confirm the changes have been applied correctly.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Agreed. We note that at both NPAs an individual's payroll data will only be changed on receipt of a written (including email) instruction or specific form, for example to change bank account details. As reassurance that any errors on changes processed would more than likely be picked up, employees are sent a pay check each month with their details on it so any errors would likely be picked up then.</p> <p><b>Responsible officer:</b> HR Manager / payroll advisor</p> <p><b>Implementation date:</b> April 2013</p>
<b>4 Authorisation of journals</b>		
<p>At LLTNPA , journal forms are completed and signed as prepared for manual journals posted. However, journal forms are not signed as authorised. Sample testing also found that journal forms were not completed for banking transactions.</p> <p>At CNPA, journals are printed and signed as authorised by the finance manager. However, journals are not signed and dated as prepared, or dated as reviewed. Furthermore, for a number of journals tested there was no supporting documentation attached.</p>	<p>It is recommended that all journal forms are completed for all journals, including bank transfers, which are signed and dated as prepared and authorised, and supporting documentation attached to the journal to provide a sufficient audit trail that the journal was raised appropriately and authorised.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Agreed.</p> <p>At LLTNPA, control system for authorisation of journals sits within a wider system of reconciliation of monthly accounts and management accounting processes. We agree that this could be further enhanced by actual sign off of journal entries to provide a more sufficient audit trail.</p> <p><b>Responsible officer:</b> Finance manager</p> <p><b>Implementation date:</b> December 2013</p>

## Action plan – LLT (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>5 Purchase invoice authorisation</b>		<b>Moderate</b>
<p>At LLTNPA, purchase orders are raised by budget holders and signed as authorised by a member of staff with the appropriate delegated authority. Of the invoices tested, two did not have authorised purchase orders.</p> <p>There is a risk that goods or services are purchased by the organisation that are inappropriate and outside budget.</p>	<p>It is recommended that all purchase orders are signed as authorised by a staff member with the appropriate level of delegated authority.</p>	<p>Agreed. We will issue a reminder of procedures and finance staff will review the completeness of POs ensuring any not signed are not processed.</p> <p><b>Responsible officer:</b> Finance manager</p> <p><b>Implementation date:</b> August 2013</p>
<b>6 New supplier checks</b>		<b>Low</b>
<p>Formal supplier reference checks are not retained on file at either authority.</p> <p>While, there are processes in place to approve invoices prior to payment, there is a risk that supplier details may be added and a supplier paid which is not genuine.</p>	<p>It is recommended that the process for checking suppliers is formalised and evidence retained centrally to ensure only appropriate suppliers are paid.</p>	<p>Agreed.</p> <p>Checks carried out at LLTNPA at each stage of procurement, but agree that this process should be more formalised and documented.</p> <p><b>Responsible officer:</b> Finance manager</p> <p><b>Implementation date:</b> September 2013</p>



# Appendices

## Summary results of testing (continued)

We tested, on a sample basis, the responses provided in the questionnaire. Our testing considered:

- the design and implementation of each control i.e. whether the control was designed appropriately to manage stated risks;
- the operating effectiveness of each control i.e. whether the control was operating in line with procedures; and
- whether there are any opportunities for increased efficiency through re-designing, or where appropriate, eliminating steps within the financial process.

Process	Control reference	Control question	Authority	Management score	Internal audit comments
Income and debtors	1.3	Are invoices reviewed to check the accuracy of the invoice and ensure the invoice reflects work completed before sending the invoice to the customer?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	2	Control designed, implemented and then operating effectively ; some scope for improvement identified <b>(Recommendation one)</b>
	1.12	Are debtors listings produced each period and reissued for aged debtors and credit balances? Is the balance per the listing agreed to the sales ledger?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	2	Control designed, implemented and then operating effectively.
Treasury and cash management	2.10	Are all cash and cheques received in the post recorded, totalled and banked completely on day of receipt?	LLTTNPA	3	Controls designed, implemented and generally operating effectively.
			CNPA	2	Controls designed, implemented and operating effectively.

Appendix one  
**Summary results of testing (continued)**

Process	Control reference	Control question	Authority	Management score	Internal audit comments
Fixed assets	3.3	Are all assets tagged, or physically verified regularly to ensure existence?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	2	Controls designed, implemented and generally operating effectively.
	3.5	Is the Fixed Asset Register updated regularly?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	2	Controls designed, implemented and operating effectively.
	3.7	Are all fixed assets, including I[ ] assets, physically verified once a year and the accounting records updated for differences identified?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	2	Controls designed, implemented and operating effectively.

## Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
Payroll and expenses	4.11	Are management and employee expenses reviewed and authorised prior to being paid/reimbursed? Is there evidence of review and authorisation?	LLTTNPA	3	Controls designed, implemented but not operating effectively.
			CNPA	3	Control designed, implemented and operating effectively.
	4.12	Are controls in place to ensure that changes to employee data are verified through issuing written confirmation or via the individual's institutions e-mail address?	LLTTNPA	0	Controls not designed or implemented. <b>(Recommendation three)</b>
			CNPA	0	Controls not designed or implemented. <b>(Recommendation three)</b>

## Appendix one

### Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
Financial Ledger	5.3c	Fixed assets register to general ledger fixed assets is reconciled for cost and accumulated depreciation at half year and year end.	LLTTNPA	2	Controls designed, implemented and operating effectively.
			CNPA	2	Controls designed, implemented and operating effectively.
	5.4	Are one-off journal entries independently reviewed and approved, and supported by appropriate documentation?	LLTTNPA	2	Controls designed, implemented and operating effectively. <b>(Recommendation four)</b>
			CNPA	3	Controls designed, implemented and operating effectively.
	5.5	Is supporting documentation for all journals kept for future reference?	LLTTNPA	2	Controls designed, implemented and operating effectively.
			CNPA	0	Controls not designed or implemented. <b>(Recommendation four)</b>
	5.6	Do you check that the correct amounts have been posted to the correct accounts, for example, through a review of the balance sheet and profit and loss account?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

## Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
Expenditure and creditors	9.1	Are new supplier accounts opened only after appropriate reference checks have been carried out and appropriate authorisation has been obtained, to ensure the supplier is genuine? Are the reference checks and authorisations documented?	LLTTNPA	2	Controls designed, implemented and operating effectively.
			CNPA	2	Controls designed, implemented and operating effectively, though scope for improvement identified. <b>(Recommendation six)</b>
	9.5	Have the following activities been segregated: <ul style="list-style-type: none"> <li>- approving new suppliers and amending supplier masterfile data/supplier details;</li> <li>- amendment of supplier masterfile data and the processing of payments;</li> <li>- recording and the authorising of transactions including purchase orders, invoices and credit notes;</li> <li>- making payments and the posting of the items; and</li> <li>- placing orders and making payments</li> </ul> If not segregated, are appropriate compensating controls in place?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

## Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with management for prioritising internal audit findings according to their relative significance depending on their impact to the process.

Rating	Definition	Examples of business impact	Action required
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.	<ul style="list-style-type: none"> <li>■ Potential financial impact of more than 1%* of total expenditure.</li> <li>■ Detrimental impact on operations or functions.</li> <li>■ Sustained, serious loss in brand value.</li> <li>■ Going concern of the organisation becomes an issue.</li> <li>■ Decrease in the public's confidence in the Authority.</li> <li>■ Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>■ Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty.</li> <li>■ Life threatening.</li> </ul>	<ul style="list-style-type: none"> <li>■ Requires immediate notification to the Authority's audit committee.</li> <li>■ Requires executive management attention.</li> <li>■ Requires interim action within 7-10 days, followed by a detailed plan of action to be put in place within 30 days with an expected resolution date and a substantial improvement within 90 days.</li> <li>■ Separately reported to chairman of the Authority's audit committee and executive summary of report.</li> </ul>
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>■ Potential financial impact of 0.5% to 1%* of total expenditure.</li> <li>■ Major impact on operations or functions.</li> <li>■ Serious diminution in brand value.</li> <li>■ Probable decrease in the public's confidence in the Authority.</li> <li>■ Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>■ Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty.</li> <li>■ Extensive injuries.</li> </ul>	<ul style="list-style-type: none"> <li>■ Requires prompt management action.</li> <li>■ Requires executive management attention.</li> <li>■ Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months.</li> <li>■ Reported in executive summary of report.</li> </ul>

\* Materiality is quantified on page 22.

## Classification of internal audit findings (continued)

Rating	Definition	Examples of business impact	Action required
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>■ Potential financial impact of 0.1% to 0.5%* of total expenditure.</li> <li>■ Moderate impact on operations or functions.</li> <li>■ Brand value will be affected in the short-term.</li> <li>■ Possible decrease in the public's confidence in the Authority.</li> <li>■ Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>■ Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty.</li> <li>■ Medical treatment required.</li> </ul>	<ul style="list-style-type: none"> <li>■ Requires short-term management action.</li> <li>■ Requires general management attention.</li> <li>■ Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months.</li> <li>■ Reported in executive summary of report.</li> </ul>
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	<ul style="list-style-type: none"> <li>■ Potential financial impact of less than 0.1%* of total expenditure.</li> <li>■ Minor impact on internal business only.</li> <li>■ Minor potential impact on brand value.</li> <li>■ Should not decrease the public's confidence in the Authority.</li> <li>■ Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>■ Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty.</li> <li>■ First aid treatment.</li> </ul>	<ul style="list-style-type: none"> <li>■ Requires management action within a reasonable time period.</li> <li>■ Requires process manager attention.</li> <li>■ Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months.</li> <li>■ Reported in detailed findings in report.</li> </ul>

\* Materiality is quantified on page 22.



## Classification of internal audit findings (continued)

The definitions of the materiality used to classify the impact of our findings are detailed below and are based on the 2011-12 financial statements.

Rating	Definition	Loch Lomond & The Trossachs National Park Authority	Cairngorms National Park Authority
Critical	Potential financial impact of more than 1% of total expenditure	Greater than £80,000	Greater than £60,000
High	Potential financial impact of 0.5% to 1% of total expenditure	Between £40,000 and £80,000	Between £30,000 and £60,000
Moderate	Potential financial impact of 0.1% to 0.5% of total expenditure	Between £8,000 and £40,000	Between £6,000 and £30,000
Low	Potential financial impact of less than 0.1% of total expenditure	Less than £8,000	Less than £6,000



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