

CAIRNGORMS NATIONAL PARK AUTHORITY

FOR DECISION

Title: AUDIT & RISK COMMITTEE ANNUAL REPORT

Prepared by: David Cameron, Director of Corporate Services

Purpose

To present the Audit & Risk Committee Annual Report to the Board.

Recommendation

The Audit & Risk Committee is requested to:

- a) Consider the report and;**
- b) Agree any amendments to it prior to circulation to the Board.**

Executive Summary

The Audit & Risk 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 & Risk Committee to cover the period of its operations from September 2015 to September 2016.

Background

1. The Audit & Risk 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 & Risk Committee to cover the period of its operations from September 2015 to September 2016.

Overview

3. The period of this Annual Report covers consideration of final accounts for 2015/16, 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 fifth and final year of delivery of internal audit services by KPMG, under a contract let jointly with Loch Lomond and the Trossachs National Park Authority (LLTNPA). Over the course of the year, the Authority participated in a joint procurement for internal audit services led by SNH. This procurement process was won by BDO who took on the role of internal auditor from 1 April 2016.
6. The Committee met five times over the period covered by this report.
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 & Risk Committee has continued to take a strategic oversight of the Authority's risk management strategy and regularly considered the strategic risk register. The Committee fed into the revision of the strategic risk register to fit with the new Corporate Plan for 2015 to 2018 approved by the Board in December 2015. The Committee has since considered the appropriateness of coverage of the strategic risk register, and adequacy of mitigation action, in periods between full Board considerations of risk management.
 - 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 internal audit reports on the closure of the previous LEADER programme in November 2015.
 - c) Accounting Policy: the Committee reviews and agrees accounting policies as part of its consideration of final accounts prior to their signature by the Accountable Officer. The Committee has agreed the need to establish a

fixed asset tagging policy prior to completion of the 2016/17 annual accounts and audit.

- d) Governance Statement: review and approval of this statement, prior to its inclusion in the annual accounts and prior to signature by the Accountable Officer.
- e) 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.
- f) Internal Audit contract: the Committee received updates throughout the course of the last 12 months on progress with the internal audit procurement process.
- g) Consideration and agreement of forward internal audit activity plans: the Committee, has agreed a forward plan of internal audit activity for 2016/17 with BDO, within a risk-based, rolling, three year internal audit programme.
- h) Best Value: the Committee agreed an internal audit review of the Authority's risk management practices as a contribution toward supporting best value in governance and management practices within the Authority, in addition to supporting the new internal auditors understanding of governance and management processes and culture within the organisation.
- i) Role of the Audit & Risk Committee: the Committee considered a national report published by Audit Scotland highlighting the scrutiny role played by Audit & Risk Committee's and the type of questions that Audit & Risk Committee's might consider raising in their consideration of the annual accounts of their bodies.
- j) Training: the Committee have agreed to undertake training on the role and purpose of Audit & Risk Committees in the public sector, with this training to be put in place in late 2016 after membership for the coming 12 months is agreed by the Board.

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
2012/13 Total (4 studies)	0	0	0	10
2013/14 Total (7 studies)	0	1	9	11
2014/15 Total (4 studies)	0	0	5	13
2015/16 Total (9 studies)	0	0	9	10
The 2015/16 studies were:				
LEADER (Nov 15)	-	-	-	-
Records Management post implementation (Nov 15)	-	-	1	1
Complaints Handling (Nov 15)	-	-	2	2
Project Management Processes post implementation (Nov 15)	-	-	2	-
Workforce Management (Nov 15)	-	-	1	-
Governance and Board Member Engagement (Feb 16)	-	-	1	1
Income Generation (Feb 16)	-	-	-	3
Financial Controls (Feb 16)	-	-	-	1
Risk Management (Sep 16)	-	n/a	2	2
Total for period	0	0	9	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 no critical or high priority recommendations have been raised by internal audit over the course of the period covered by this report.
11. According to the priority definitions, only critical priority recommendations need be brought to the attention of the Audit & Risk 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. The Committee has considered the Internal Auditors' Annual Report for 2015/16. The internal auditor's annual report for the year gives the following overall opinion: **"Significant (with minor improvements) assurance can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control"**. This assessment maintains the overall level of assurance given by the internal auditor in the previous year.

External Audit

15. The Authority's accounts for 2015/16 received a clear, unqualified external auditor's report and opinion from Audit Scotland, our external auditors.
16. The accounts and external auditor's report for 2014/15 were considered and approved by the Committee. The accounts were signed by the Chief Executive as Accountable Officer on 1 July 2016, eight weeks earlier than in the previous year, and passed to Audit Scotland for signature and onward submission to Auditor General and Scottish Parliament.
17. The Authority's accounts were cleared by the Auditor General for Scotland to be laid before Parliament on 7 July 2016.
18. The Audit & Risk Committee considered Audit Scotland's report to those charged with governance on the audit of the 2014/15 accounts at its meeting of 1 July 2016. The report highlighted only one action points for future consideration by management, which has been accepted, and management responses and action timetables endorsed by the Committee.
19. The external audit report notes that: "no material weaknesses in the accounting and internal control systems were identified during the 2015/16 audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements."

Strategic Risk Management

20. The Authority's strategic risk register has now been fully revised to reflect the new priorities and environment of the Corporate Plan for 2015 to 2018. The Board has sight of the strategic risk register and is able to comment on it twice each year, while considering wider corporate performance reports. The Audit & Risk Committee will continue to review the coverage and adequacy of the strategic risk register in those quarters where it is not presented to the full Board.
21. The strategic risk register in its current form is presented at Annex I to this report.

22. The internal audit review of risk management has highlighted a number of useful recommendations in terms of the future direction of the Authority's risk management policies and practices. The Audit & Risk Committee will take these recommendations forward over the course of 2016/17 and report back to the Board in due course.

Conclusions

23. The Audit & Risk 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.
24. The Committee has engaged 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. The Committee has shaped and approved the overall audit plan and guided the direction and approach of the internal auditors and their programme of work. The Committee has also monitored delivery against approved action plans.
25. Both the internal and external auditors' findings 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 highly reassuring for Committee members to see once again that only a few typically low 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 that can be made to services and controls, and as such a number of recommendations for improvement from internal audit will be expected, the Committee warmly welcomes the evidence of generally effective control systems evidenced by the reports and very low level of improvement recommendations arising from audits over the year.
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 will also seek to continue to have oversight of the Authority's approach to and handling of risk management, and of wider aspects of corporate governance such as the approach to Best Value and value for money. In particular, members will seek to ensure that lessons are learned from operational experience and that wherever possible reviews of working practices and learning from them lead to improvements in our systems.

David Cameron, for Audit & Risk Committee members:

Gordon Riddler (Convener)

Dave Fallows

Becky Badger

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22 August 2016 davidcameron@cairngorms.co.uk