

**CAIRNGORMS NATIONAL PARK AUTHORITY**  
**AUDIT COMMITTEE**

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**FOR DECISION**

**Title:           AUDIT COMMITTEE ANNUAL REPORT**

**Prepared by:   David Cameron, Head of Corporate Services**

**Purpose**

To present a draft Audit Committee Annual Report to the Committee for approval prior to its submission to the Board.

**Recommendation**

The Committee is requested to consider the draft annual report to the Board, set out in the paper and to:

- Agree any amendments required.
- 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 Board on its activities. The paper presented here sets out a draft of the first such annual report, covering the Committee's activities from June 2004 to August 2005.

It is intended that the agreed report will be presented as a paper to the Board at its meeting in January 2006, following the Committee's consideration of the draft report and incorporation of any agreed changes.

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## AUDIT COMMITTEE 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. Accordingly, this report is presented on behalf of the Audit Committee to cover the period of its operations up to its meeting of 26 August 2005.

### Overview

3. This period of this Annual Report covers consideration of draft final accounts for both 2003/04 and 2004/05, together with associated reports from Audit Scotland, the Authority's external auditors. The period also covers the first phase of internal audit work undertaken by Deloitte, following their appointment in July 2004.
4. The Committee met four times in the period June 2004 to August 2005. In addition to management reports from the College'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: identification of strategic risks which may impact on delivery of the Authority's Corporate Plan, together with agreement of a risk management strategy.
  - b) Financial Regulations: draft financial regulations were agreed for implementation in the Authority.
  - c) "Green" office: consideration of minimising the environmental impact of the Authority's activities.
  - d) Fraud Policy and Response Plan was considered and agreed.
5. The Committee also undertook the investigation of a complaint made to the Authority on the conduct of a Board member, meeting a further three times between 24 March and 20 May in confidential session. The Committee reported to the full Board on this matter on 3 June 2005.

### Internal Audit

6. The Committee agreed an annual internal audit work programme presented by Deloitte.
7. Deloitte have since presented three management reports to the Committee, covering their review work on payroll, fixed assets and corporate and operational planning processes. 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 course of the year.

**Table One: Summary of Internal Audit Findings**

Internal Audit Study	Number of Recommendations		
	Priority 1	Priority 2	Priority 3
Payroll	0	5	2
Fixed Assets	2	2	3
Corporate and Operational Planning	0	0	2

8. Despite the ongoing development of the organisation, only two high priority recommendations have been made following the internal audit reviews. Priority one recommendations reflect findings which the internal auditors consider to be major issues which need to be brought to the attention of senior management and the Audit Committee.
9. In practice, the Committee is aware of all recommendations made by the internal auditors, through consideration of full management reports following each audit review.
10. Both high priority recommendations relate to the review of fixed assets, identifying the need to:
  - a) complete and circulate financial regulations as soon as possible, covering all areas of financial activity, and
  - b) add all assets individually into the fixed asset register along with specified information relating to each asset.
11. The Committee has noted management responses to all recommendations made and will monitor progress made. The internal auditors will also conduct follow-up reports and report back to the Committee on their findings. With regard to the two priority one recommendations considered, the Committee considered and approved financial regulations for the Authority at its meeting of 26 August 2006.
12. A review of project management and partnership working arrangements to be undertaken in Autumn 2005 will complete the existing work programme agreed with Deloitte. The Head of Corporate Services has been in discussions with Deloitte's Senior Audit Manager on a forward work programme and the Committee will consider this at its next meeting in December 2005.
13. The Internal Auditors' Annual Report was presented to the Committee at its meeting in August 2005. Their report concludes that, on the basis of work undertaken, the Authority generally has an adequate framework of internal control.

### **External Audit**

14. The Board approved the Authority's accounts for 2003/04 at its meeting in December 2004. These received a "clear", unqualified audit certificate from Audit Scotland, the Authority's external auditors.

15. The Audit Committee considered Audit Scotland's Management Report on the 2003/04 accounts at its meeting in December 2004 and noted two points for action raised in the report:
  - a) Bringing forward the target date for completion of the annual accounts in future years to the end of October;
  - b) Production and dissemination of financial regulations and associated financial instructions.
16. With regard to the first of the above points, the Committee considered the draft accounts for 2004/05 at its meeting of 26 August and noted that the timetable for completion of those accounts was ahead of the intended schedule of 31 October. The accounts were subsequently presented to the Board at its meeting in October.
17. However, finalisation of the accounts has been delayed by the protracted resolution of the correct accounting treatment for grant in aid between the Authority's officers and the Scottish Executive. The Scottish Executive requires grant to be accounted for on a cash basis while all other income and all expenditure is accounted for on an accruals basis. As the accounts were originally prepared on a full accruals basis, a number of late changes to the accounts were therefore required.
18. In addition to reports on the final accounts, the Committee has received reports from Audit Scotland on:
  - a) Information Technology Systems
  - b) Corporate Governance
  - c) Financial Systems
19. Management responses on issues arising from these reviews have been approved. It is anticipated that action taken will be reviewed by Audit Scotland as part of their reviews leading to certification of future years' accounts.
20. The internal audit work programme and follow up activity will also be informed by the findings raised in these Audit Scotland reviews.

## **Conclusions**

21. The Audit Committee considers that it has been successful in progressing the Board's governance and internal control priorities during 2003/04. There has been an engagement through the year with issues identified by the College'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.
22. Both the internal auditors' finding of adequate levels of internal controls 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 by management.
23. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.

24. The Committee also plans over the course of the coming years to consider means by which it can broaden its activities to review how well the Authority delivers its overall corporate and operational plan objectives.
25. In future years, the Committee will also consider follow up reviews by both internal and external auditors in order to provide the Board with assurance that actions highlighted are being addressed, and therefore that weaknesses in internal control systems identified are corrected.

**David Cameron**  
**December 2005**

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