

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 fifth Annual Report is presented on behalf of the Audit Committee to cover the period of its operations from August 2009 to July 2010.

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. The previous Audit Committee Annual Report was submitted to the Board on 4 September, covering the period from January 2008 to July 2009. This fifth Annual Report is presented on behalf of the Audit Committee to cover the period of its operations from August 2009 to July 2010.

Overview

3. The period of this Annual Report covers consideration of final accounts for 2009/10, together with associated reports from Audit Scotland, the Authority's external auditors. The Committee has also continued to have oversight of the work of Deloitte, the Authority's internal auditors, and consider reports issued by them.
4. The Committee met four times over the period covered by this report.
5. 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 updated Strategic Risk Register is included with this report, at Appendix I.
 - 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) International Financial Reporting Standards (IFRS): the Committee has received updates on the Authority's full implementation of IFRS in its preparation of final accounts for 2009/10 and also received reports from the external auditor on the effectiveness of IFRS implementation.
 - d) Accounting Policies: the Committee approved a revised set of accounting policies to comply with the requirements of IFRS.
 - e) Scottish Government Procurement Capability Assessment: the Committee has received a brief update on the implementation of this work across Scotland and of the Authority's participation in the exercise. Initial results emerging from the assessments undertaken were highlighted. The Committee also noted in this regard the development of a joint procurement post as part of the initiative on joint corporate services development between both National Park Authorities.
 - f) Corporate Services Benchmarking: the Committee noted the submission of the Authority's third annual return to the Scottish Government's Corporate

Services Benchmarking exercise. The purpose of this exercise is primarily to assist in identifying areas of corporate services where efficiencies may be achieved, based on the like for like comparison of costs of service delivery in finance, human resources, estates management and IT management across Scottish NDPBs.

- g) Statement of Internal Control: review and approval of this statement, prior to its inclusion in the annual accounts and prior to signature by the Accountable Officer.
- h) 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 have also undertaken formal follow-up reviews of action taken on previous recommendations.
- i) Consideration and agreement of forward internal audit activity plans: internal audit work has increasingly included work on project management reviews, designed to test the linkages between project design and delivery to the strategic objectives set out in the Authority's approved Corporate Plan. Audit plans have continued to widen the scope of audit work beyond core internal controls. In this way, the Audit Committee is able to test the value of project and organisational outputs, while the Finance Committee is charged with monitoring the effectiveness of use of project inputs such as staff time and financial resources.

Internal Audit

- 6. The Committee agree an annual internal audit work programme presented by Deloitte LLP.
- 7. Over the course of the period of this report, Deloitte have presented eight 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		
	Priority 1	Priority 2	Priority 3
LEADER (Aug 09)	-	3	2
Procurement (Dec 09)	-	6	1
Brand Management (Apr 10)	-	-	4
Budgetary Control (Apr 10)	-	-	1
Human Resource Management – Appraisal Processes	-	-	1

- a) **Priority 1:** major issues that need to be brought to the attention of the Management and Audit Committee.
 - b) **Priority 2:** important issues which should be addressed by management in their area of responsibility.
 - c) **Priority 3:** minor issues where management may wish to consider our recommendation.
8. Internal audit have also undertaken a review of the Authority's planning services over the course of the year and plan to report their findings to a meeting of the Committee on 3 September 2010.
 9. Additionally, a draft report on National Park Plan delivery mechanisms has been issued and this work is being developed further prior to presentation of the report to the Committee.
 10. The Committee welcomes the fact that once again no priority 1 recommendations have been raised by internal audit over the course of the 12 months covered by this report.
 11. In practice, 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 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.
 13. All scheduled internal audit work the period was undertaken, with the exception of a study on the Authority's Planning Enforcement systems. This review was deferred by agreement to allow relatively new systems time to become better established prior to a review of their effectiveness being undertaken.
 14. The Committee has considered the Internal Auditors' Annual Report for 2009/10. The internal auditor's annual report for each year concludes: "on the basis of work undertaken in the year ... we consider that Cairngorms National Park Authority generally has an adequate framework of control over the systems we examined..."

External Audit

15. The Authority's accounts for 2009/10 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 2009/10 were signed on 25 June. This embeds the improvements in financial closure periods implemented in previous years.
17. The Annual Report and Accounts were laid in Parliament on 29 July, within the deadline of 31 July requested in the Authority's grant in aid letter and one month earlier than had been achieved previously.

18. The Audit Committee has considered Audit Scotland's Management Report on the audit of the 2009/10 accounts. There are no points for action raised.

Conclusions

19. The Audit Committee considers that it has been successful in progressing the Board's governance and internal control priorities during the 12 month period August 2009 to July 2010.
20. The Committee warmly welcomes the evidence of ongoing success in closing annual accounts and completing the external audit process more promptly each year. Accounts for 2009/10 have been laid in Parliament on the earliest ever date achieved by the Authority, 29 July. 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 Stephen O'Hagan.
21. 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.
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. It is also reassuring to see that no priority I 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.
24. The Committee also wishes to express its thanks to the internal audit team from Deloitte, led by Lisa MacDonald, for their consistently clear reports which are very well presented to members. Prompt reporting and delivery of the internal auditor's annual report has also facilitated the improvement in the final accounts timetable.
25. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
26. 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 continued to test the extent to which the underpinning rationale for projects development can be linked back to delivery of strategic corporate objectives, and the extent to which project outputs make a contribution to Corporate Plan outcomes.

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2 August July 2010