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CAIRNGORMS NATIONAL PARK AUTHORITY
Audit Committee Paper 3 Annex 1 21/06/13

Cairngorms National Park Authority

Annual internal audit report

11 June 2013

This report is for:

Information

Audit Committee

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Notice: About this report

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

Based on our work undertaken in 2012-13, we are of the opinion that the systems provide a reasonable basis for maintaining control and that the control framework provides reasonable assurance regarding the effective and efficient achievement of Cairngorm's National Park Authority's ("the Authority's") objectives.

Assessment of the effectiveness of the system of internal control

This report of our 2012-13 internal audit findings represents the principal matters we wish to bring to the attention of the Audit Committee. These findings should be considered in the context of the services contract, our detailed observations, findings and scope of our work, as set out in the individual reports presented to the Audit Committee during the year.

Based on our work undertaken in 2012-13, we are of the opinion 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.

We have reported, in our assignment reports, certain matters which we understand are being addressed by management; our opinion on systems of internal control is based on our recommendations being satisfactorily implemented.

Internal audit plan

Our internal audit plan for 2012-13, agreed with the Audit Committee, was developed based on consideration of:

- discussions with members of the senior management team;
- consideration of the Authority's risk register, as developed and provided by management;
- requirements for internal audit;
- The operating environment and state of control as identified through discussions with management; and
- consideration of key business processes.

Through these activities, potential internal audits were identified and prioritised, based on those areas viewed as of greatest benefit by management and the Audit Committee.

Purpose of internal control

It is accepted 'best practice' that the head of internal audit provides the Audit Committee with an annual statement on the effectiveness of internal controls based on the work performed during the financial year. This report constitutes this statement and covers the period 1 April 2012 to 31 March 2013. The Audit Committee should use this and other sources of assurance to make its annual report to the board. In addition, we would expect our report to inform the Audit Committee and board's consideration of the governance statement included with the financial statements. The opinion of the internal auditors does not supersede the Authority's responsibility for risk, control and governance.

Responsibilities for internal control

It is the board and management's responsibility to maintain systems of risk management, internal control and governance. The respective responsibilities of management and internal audit are set out in the services contract.

Internal audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot be held responsible for internal control failures. This allocation of responsibilities is consistent with Turnbull guidance on responsibilities for maintaining a sound system of internal control and the requirements of the Scottish Government. In summary, this guidance suggests that:

- the Authority should set appropriate policies on internal control and seek regular assurance that these are functioning effectively;
- management should implement the Authority's policies on internal control and design, implement and monitor suitable systems; and
- internal audit should provide an independent assessment of the adequacy of the system of internal control.

Limitations

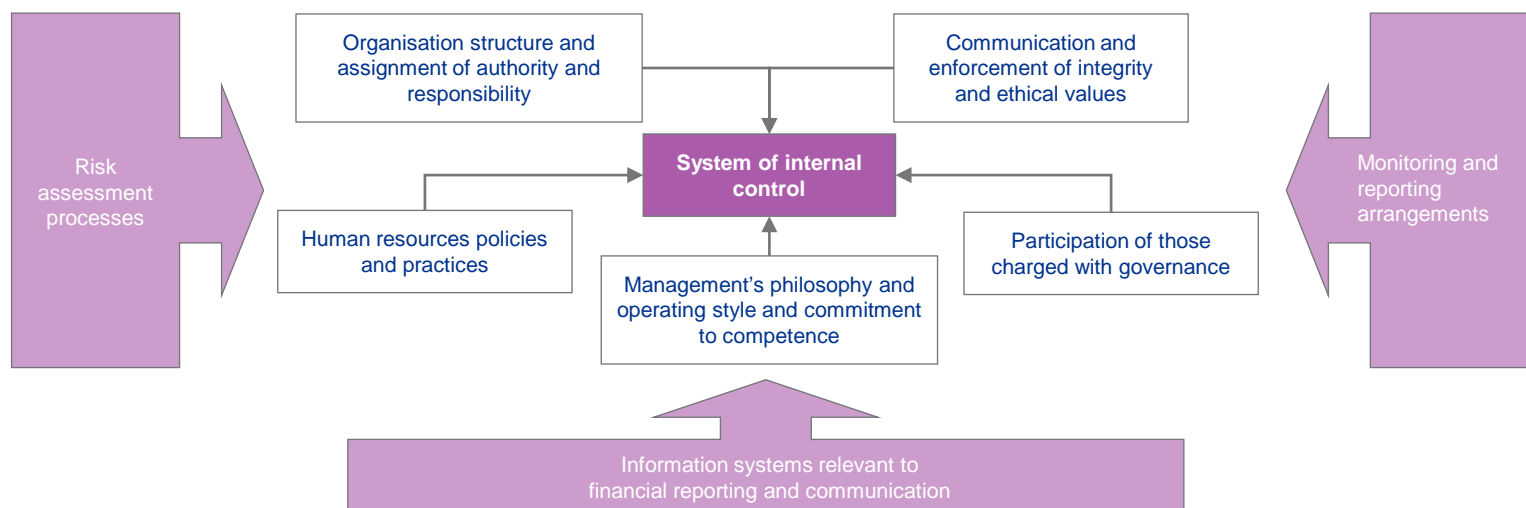
There are inherent limitations as to what can be achieved by internal control and, consequently, limitations in conclusions reached. These limitations include the possibility of incorrect management judgement in decision making, control breakdowns because of human error, control activities being circumvented by the collusion of two or more people, and of management overriding controls. In addition, there is no certainty that internal controls will continue to operate effectively in future periods or that controls will be adequate to mitigate significant risks that may arise in the future.

It is important to note that:

- **it is management's responsibility to maintain internal controls on an ongoing basis;**
- **the internal audit function only forms part of the Authority's overall control structure; and**
- **while we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses, internal audit procedures do not guarantee that fraud, or other irregularities, will be detected.**

System of internal control

We provide assurance on the adequacy of internal controls, including their operating effectiveness, based on the results of work completed during the year, in accordance with the programme approved by the Audit Committee. During our internal audits we performed procedures to gain an understanding about the design and implementation of specific controls including enquiries with the Authority staff, observing the application of specific controls and inspecting documents and reports.



In assessing the level of assurance given, we have considered:

- internal audit work undertaken during 2012-13;
- management's progress in implementing internal audit recommendations reported by the previous auditors, as appropriate; and
- the effects of any significant changes in the Authority's objectives or systems.

Summary of internal audit activity in 2012-13

In completing the 2012-13 internal audit plan we identified and reported 18 recommendations. There were no 'critical' or 'high' graded recommendations. We identified six graded 'moderate' and 12 graded 'low' priority.

In each of our reports we prepared an action plan highlighting the recommended action to be taken to address identified control weaknesses. Against each recommendation management has provided an action plan highlighting the action to be taken, the individual responsible for implementing the recommendation and the timeframe for completion.

| Assignment | Assignment days | Status | Critical | High | Moderate | Low |
|--|-----------------|----------|-----------------|----------|----------|-----------|
| | | | Recommendations | | | |
| Partnership working | 3 | Complete | - | - | - | 2 |
| Performance management | 3.5 | Complete | - | - | - | 2 |
| EU funding applications | 5 | Complete | - | - | 1 | 2 |
| Visitor experience | 3 | Complete | - | - | - | 1 |
| Controls risk self assessment | 2.5 | Complete | - | - | - | 5 |
| Corporate governance and risk management | 3 | Complete | - | - | - | - |
| Total | 20 | | - | - | 1 | 12 |

Summary of completed assignments 2012-13

We have summarised the findings of our internal audits undertaken during 2012-13.

We summarise below the findings of internal audits undertaken in line with the agreed 2012-13 internal audit plan.

| Assignment | Summary of findings |
|------------------------|--|
| Partnership working | <p>The National Park Partnership Plans (“NPPPs”) contain strategic guidance for areas to be delivered by the Authority and partner organisations. Management demonstrate a clear commitment to engagement with partners through regular participation by board members and management at a variety of partnership working groups and community forums. The executive and senior management teams are responsible for managing relationships and identifying important interactions for current focus and prioritisation. We considered these policies and procedures for partnership working and the potential impact on the delivery of strategic priorities.</p> <p>We made two low level recommendations relating to the formalisation of the partnership agreements to ensure accountability for the partnership plan delivery, in particular through communication with partners over the requirement to report in their corporate plans how they contribute to delivery.</p> |
| Performance management | <p>Recent public sector funding cuts have increased the pressure to deliver enhanced performance within an increasingly tight financial envelope. These challenges and changes create opportunities to review existing arrangements, including management information and performance management, to ensure that they are fit for purpose and appropriately tailored to the authorities’ needs going forward.</p> <p>We considered the policies and procedures for performance management and the extent to which they support the Authority in achieving its objectives, and in turn, the Scottish Government’s outcomes. We found that the performance management framework included clear monitoring and reporting lines with specific KPIs agreed and reported to the board and published on the website, helping to ensure transparency of the overall performance management process. We made two ‘low’ graded recommendations in relation to the clarity of reporting to the board and measurement bases for KPIs to ensure reliability and accountability.</p> |

Summary of completed assignments 2012-13 (continued)

| Assignment | Summary of findings |
|-------------------------|---|
| EU funding applications | <p>LEADER is a French acronym, 'Liaison Entre Actions de Développement de l'Economie Rurale' and refers to European funding made available to enhance rural communities. An annual internal audit review is required as part of the service level agreement between the Scottish Rural Payments & Inspection Directorate and the Authority. This requires consideration of the Authority's compliance with the service level agreement and the relevant EC Regulations.</p> <p>The Authority has been responsible for the financial management of the LEADER programme ("the Programme") since the foundation of the national park in 2003. The Programme is run by the Cairngorms Local Action Group ("LAG"), comprising representatives from the community, business, youth, and womens' groups in the area, along with representatives from public sector bodies. The LAG is responsible for the consideration and approval of project applications.</p> <p>We raised one 'moderate' rated recommendation in relation to retention of evidence for payments in advance and two 'low' rated recommendations in relation to sample sizes for inspections and updating the review of the business plan.</p> |
| Visitor experience | <p>An estimated five million people visit the national park each year. While management work to encourage visitors to the park, this brings with it risks over protecting its heritage and communities in the longer term.</p> <p>We considered policies and procedures for working with tourism businesses to encourage tourism development and improve service, and considered the extent to which these processes support the Authorities in achieving their objectives. There are processes in place for monitoring visitor experience and there were clear links between the results of visitor surveys and outcomes within the 2012-13 NPPP relating to visitor experience.</p> <p>The Authority has a strategy and action plan for sustainable tourism 2011-2016 which outlines a number of strategic objectives including the expected outcome and indicators / measurements.</p> <p>We made one 'low' graded recommendation in relation to responsibilities for the tourism strategy 2011-16.</p> |

Summary of completed assignments 2012-13 (continued)

| Assignment | Summary of findings |
|---|---|
| <p>Controls Risk Self Assessment</p> | <p>The control risk self-assessment (“CRSA”) allows organisations to assess the design and effectiveness of controls over risks associated with key processes. ‘Process owners’ across an organisation score a range of controls for their design and operating effectiveness. The information is then used by management to make an assessment, at a high level, of the internal control environment, and we complete corroborative testing over a sample of these controls.</p> <p>Our work found that controls are generally strong, with an overall score of 94%, in line with other similar organisations we have benchmarked against. We raised five recommendations, in particular over authorisation of sales invoices, authorisation of manual journals, payroll data and new supplier checks.</p> |
| <p>Corporate governance and risk management</p> | <p>Following the audit committee training session held in the prior year, we facilitated a risk management workshop during 2012-13. This was undertaken as management was revising the existing risk register. This session allowed members of the audit committee to start with a ‘blank page’ and brainstorm risks in relation to the Authority and the current external environment. Risks were collated from members in advance and then subject to discussion and refinement prior to updating the risk register.</p> |

Appendices

Appendix one

Classification of 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"> ■ Potential financial impact of more than 1%* of total expenditure. ■ Detrimental impact on operations or functions. ■ Sustained, serious loss in brand value. ■ Going concern of the organisation becomes an issue. ■ Decrease in the public's confidence in the Authority. ■ Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty. ■ Life threatening. | <ul style="list-style-type: none"> ■ Requires immediate notification to the Authority's audit committee. ■ Requires executive management attention. ■ 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. ■ Separately reported to chairman of the Authority's audit committee and executive summary of report. |
| 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"> ■ Potential financial impact of 0.5% to 1%* of total expenditure. ■ Major impact on operations or functions. ■ Serious diminution in brand value. ■ Probable decrease in the public's confidence in the Authority. ■ Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty. ■ Extensive injuries. | <ul style="list-style-type: none"> ■ Requires prompt management action. ■ Requires executive management attention. ■ 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. ■ Reported in executive summary of report. |

Appendix one

Classification of 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"> ■ Potential financial impact of 0.1% to 0.5%* of total expenditure. ■ Moderate impact on operations or functions. ■ Brand value will be affected in the short-term. ■ Possible decrease in the public's confidence in the Authority. ■ Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty. ■ Medical treatment required. | <ul style="list-style-type: none"> ■ Requires short-term management action. ■ Requires general management attention. ■ 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. ■ Reported in executive summary of report. |
| 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"> ■ Potential financial impact of less than 0.1%* of total expenditure. ■ Minor impact on internal business only. ■ Minor potential impact on brand value. ■ Should not decrease the public's confidence in the Authority. ■ Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty. ■ First aid treatment. | <ul style="list-style-type: none"> ■ Requires management action within a reasonable time period. ■ Requires process manager attention. ■ Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months. ■ Reported in detailed findings in report. |



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