



For discussion

Title: Audit and Risk Committee annual report

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Purpose

1. This paper presents the Annual Report of the Audit and Risk Committee to the Board.

Recommendations

2. The Board is asked to note the Audit and Risk Committee's Annual Report.

Background

3. The Audit and Risk Committee is required to report 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.
4. This Annual Report is presented on behalf of the Audit and Risk Committee to cover the period of its operations from September 2023 to September 2024. The draft report was approved by the Committee at its meeting of 27 September 2024.

Overview

5. The period of this Annual Report covers consideration of final accounts for 2023 / 24. The accounts were submitted to the Committee's meeting of 27 September 2024 in line with the agreed external audit timetable for accounts to be finalised and approved for signature and submission to the Auditor General for Scotland at this meeting. The reporting period also covers the approval of accounts for 2022 / 23 given the later than normal audit timetable for that year.
6. Mazars remain appointed through Audit Scotland as external auditors to the Park Authority, with this contract commencing with effect from the audit of the 2022 / 23 accounts.



7. The Committee has been supported over the duration of this reporting period by Azets in the provision of internal audit services. The Committee has continued to have oversight of the work of the Authority's internal auditors and considered reports issued by them in full.
8. The Committee has continued to work to the terms of reference approved by the Board over the duration of this reporting period.
9. The Committee met four times over the period covered by this report. All meetings were held as scheduled and were quorate.

Key Activities

10. In addition to management reports from the Park 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 and Risk Committee has continued to take a strategic oversight of the Park Authority's risk management strategy and regularly considered the strategic risk register. The Committee has supported the full review of the strategic risk register to bring the Park Authority's strategic risk management into line with the new Corporate Plan spanning 2023 to 2027.
 - b) Detailed risk analysis - The Committee has continued the practice in the year of considering more in-depth analysis of key risks from senior management. This practice provides an opportunity to explore key or increasing strategic risks in more detail and evaluate the adequacy of mitigation actions. The Committee has considered detailed analysis of the risks associated with the Heritage Horizons Cairngorms 2030 programme as it finalised the development phase of the programme and moves through its delivery phase.
 - c) Risk training - A training and development session on the Committee's responsibilities for risk management was held in April 2024 and made available to the full board. This training was delivered by the Park Authority's internal auditors.
 - d) Accounting policy and estimates - The Committee reviews and agrees accounting policies and considers any significant estimates required in the finalisation of the annual accounts as part of its consideration of final accounts prior to their signature by the accountable officer. There were no significant variations to



accounting policy required in either year covered by this report, nor were any estimates causes of concern.

- e) Governance statement - Review and approval of this statement, prior to its inclusion in the annual accounts and prior to signature by the accountable officer.
- f) Updates on progress in implementing previous audit recommendations - The Committee has maintained a twice-yearly audit review of action taken on previous audit recommendations, supplemented from time to time by management reports.
- g) Consideration and agreement of forward audit activity plans - The Committee, has agreed a forward plan of internal audit activity and has monitored progress in successful delivery of the internal audit plan for 2023 / 24 with a plan for 2024 / 25 agreed and currently under delivery.
- h) Letter of representation - The Committee considered the draft letter of representation from the Park Authority to Mazars, the external auditor, prior to its signature by the accountable officer as an appropriate reflection of the Park Authority's position for preparation of the accounts for 2023 / 24 and conduct of the Park Authority's financial and wider control procedures over the course of the year. The Committee has also reviewed the underpinning detail set out in assurances to the external auditor relating to preventing fraud in the annual accounts, compliance with laws and regulations, litigation and claims, and going concern.
- i) Lessons Learned - The Committee has provided oversight and scrutiny over lessons learned from the Park Authority's support of LEADER grant programmes, with a view that these lessons will contribute to developing new grant programmes supporting community led local development which retain the benefits of the LEADER system while addressing issues and concerns with processes and procedures deployed.
- j) Procurement - The Committee received an internal audit report in June 2024 setting out significant weaknesses in the Park Authority's internal controls over its procurement activities. The Committee agreed an action plan including urgent actions to resolve the key issues. The Chair and Deputy Chair of the Committee are monitoring delivery of that action plan on a monthly basis, with the full Committee receiving updates at its meeting. Key actions, including recruitment of a dedicated Procurement Officer, are progressing well.



- k) Procurement Strategy - The Committee considered a draft of the Park Authority's renewed, updated Procurement Strategy at its meeting in September 2024. This strategy provides the foundation for much of the procedural work to be taken forward in the Park Authority's action plan to strengthen internal controls.

Internal Audit

11. The Committee agree an annual internal audit work programme presented by the internal auditor.
12. Over the course of the period of this report, Azets have presented five 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. Two of the internal auditors' reports were advisory in nature in 2023 / 24, providing advice on developing areas of work rather than testing the strength of existing, implemented internal control systems. These advisory reviews are helpful guides to staff in their development of new systems while providing assurance to Committee members on the thoroughness of consideration in developing new systems.
13. Table one presents a summary of the number and degree of significance of internal audit findings over the period of this report and compares this with historic levels. The definitions used for significance of internal audit recommendations have changed slightly with the change in internal audit providers over time. The current definitions used by the internal auditors are given after the table. The areas audited are also classified in terms of overall effectiveness of the internal audit control systems reviews and these classifications are also explained below the table.



Table One: Summary of Internal Audit Findings

Internal Audit Study	Number of Recommendations			
	Very High Risk	High Risk	Moderate Risk	Limited Risk
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
2016/17 Total (8 studies)	n/a	0	11	11
2017/18 Total (3 studies)	n/a	0	3	7
2018/19 Total (9 studies)	n/a	1	6	10
2019/21 Total (9 studies)	0	5	16	21
2021/22 Total (5 studies)	0	4	10	2
2022/23 Total (6 studies)	2	9	11	5
2023/24 Total (3 studies + 2 advisory)	4	7	8	0
The 2023/24 studies were:				
	Very High	High	Moderate	Limited
Cairngorms 2030	0	1	1	0
Health and Safety	0	3	3	0
VAT Review (advisory)	-	-	-	-
Procurement	4	3	0	0
Specification of Finance System (advisory)	-	-	-	-
Operational and financial planning	0	0	4	0
Total for period	4	7	8	0



14. Key - Azets definition of grades for management action recommendations:
- a) **Very High-Risk Exposure** - Major concerns requiring immediate senior attention that create fundamental risks within the organisation
 - b) **High Risk Exposure** - Absence / failure of key controls that create significant risks within the organisation
 - c) **Moderate Risk Exposure** - Controls are not working effectively and efficiently and may create moderate risks within the organisation
 - d) **Limited Risk Exposure** - Controls are working effectively but could be strengthened to prevent the creation of minor risks or address general house-keeping issues.
15. The Committee recognises that the risk profile of audit recommendations for action and improvement of internal controls remains increased over the course of the year. This to a degree continues to recognise the relatively new areas of service being undertaken by the Park Authority, such as taking on full responsibility for the peatland restoration programme, together with significant changes to the scale and breadth of our operating environment as the organisation transitions to a hybrid working environment and commencing delivery of the Cairngorms 2030 Programme across multiple project directions. Nine of the 27 recommendations raised over the previous 12-month period related to the relatively new and developing peatland restoration programme, while the very high-risk areas in 2023 / 24 on procurement set out the need to adapt internal control systems to a much higher level of demand for procurement support and advice over a wider range of contracting requirements. This continues to highlight the increased level of audit recommendations likely to be brought up in new or novel areas of operations as opposed to in more mature operating systems. Those actions graded as “very high risk” are acted on immediately by management.
16. The Committee is made aware of all recommendations made by the internal auditors, through consideration of full management reports following each audit review.
17. 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.
18. The Committee has considered the Internal Auditors' Annual Report for 2023 / 24. The internal auditor's annual report for the year gives the following overall opinion:



“In our opinion, Cairngorms National Park Authority has a framework of governance, risk management and controls that provides reasonable assurance regarding the effective and efficient achievement of objectives, except in relation to procurement. Our work in this area found a number of significant weaknesses in the control framework in place and potential non-compliance with procurement legislation”.

External Audit

19. The Park Authority's accounts for 2023 / 24 are expected to receive a clear, unqualified external auditor's report and opinion from Mazars, our external auditors on the basis of the external auditor's draft report on their audit presented to the Committee in September 2024 and confirmed by subsequent updates.
20. The accounts and external auditor's report for 2023 / 24 were considered and approved by the Committee at its meeting on 27 September 2024. Final external audit file review remains ongoing as at the date of this report. Signed accounts will be forwarded to the Auditor General for Scotland and once reviewed and released will be laid in Parliament once the external audit is complete. The external auditors have committed to complete their work and sign their audit certificate in the accounts for 2023 / 24 in time for the 31 December statutory deadline for accounts to be laid in Parliament.
21. The Audit and Risk Committee also considered the 2022 / 23 accounts in this reporting period alongside Mazars' report to those charged with governance on the audit of the 2022 / 23 accounts, at its meeting of 24 November 2023. The report highlighted two action points; consideration of potential to simplify the accounts and ledger structure and explore the potential to use accounting software functionality more fully; and considering appropriate governance and control structures around the Park Authority's cyber risks. These actions were accepted by management and the Committee, and the Committee noted these are actions that management are already progressing.
22. The external audit report also noted that management controls had been tightened over the course of 2022 / 23 following a low value fraud being recognised and further fraud prevented following a hack of an email account.



23. The external audit timetable for 2022 / 23 accounts, which was commenced later in the year, resulted in accounts being laid in Parliament just before recess on 19 December 2023.

Strategic Risk Management

24. The Park Authority's strategic risk register has been fully revised over the course of the year to support delivery of the new Corporate Plan spanning 2023 to 2027. The Park Authority's strategic risk management approach now incorporates and is led by the Board's strategic risk appetite, established following a workshop in the prior year. The Audit and Risk Committee has continued to review the coverage and adequacy of the strategic risk register since the adoption of the new risk register in those quarters where it is not presented to the full board.

25. The Committee has incorporated assurance over risk management of the Cairngorms 2030 Programme as a standing element of its agenda, ensuring any strategic risk implications to the Park Authority as a whole arising from its leadership of this significant programme of work are recognised and incorporated in our risk management framework.

Conclusions

26. The Audit and 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.

27. The Committee welcomes the work of the Authority's Finance team in once again maintaining a high quality and professional financial accounting service. The Committee also recognises the valuable work of the wider Corporate Services team in supporting a rapidly expanding range of activities and delivery by the Park Authority and in helping achieve the organisation's strategic objectives.

28. The Committee has engaged through the year with issues identified by the Park Authority's internal and external auditors, and also by the Park 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.



29. Both the internal and external auditors' findings provide assurance to the Committee and board that the Park Authority's internal control and governance objectives are being met effectively by management. The Committee will continue to have oversight in the evolution of the Park Authority's procurement controls over the year ahead, recognising development of systems needed to address the control weaknesses identified in this area.
30. The Committee continues to recognise the coverage of some of the Park Authority's newer service areas has pushed the risk profile of recommendations higher over the course of the last reporting periods. It is accepted that there will always be a range of improvements than can be made to services and controls; that these controls must continue to adapt to changing operating and strategic environments; and as such a number of recommendations for improvement from internal audit will always be expected. The Committee warmly welcomes the evidence of attention to internal control systems by management and generally effective control systems evidenced by the annual internal audit reports. The Committee expects the risk profile of recommendations to fall back toward more usual levels in coming years as new service areas and recommendations for action become better embedded.
31. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
32. The Committee will also 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.

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