

# CAIRNGORMS NATIONAL PARK AUTHORITY

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## FOR DISCUSSION

**Title:                   AUDIT COMMITTEE ANNUAL REPORT**

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

### **Purpose**

To present the Audit Committee Annual Report to the Board.

### **Recommendation**

**The Board is requested to:**

- a) Consider the report and discuss any issues raised by the Committee's work in the year.**
- b) Note the report.**

### **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 Annual Report is presented on behalf of the Audit Committee to cover the period of its operations from October 2014 to August 2015.

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## AUDIT COMMITTEE DRAFT ANNUAL REPORT – FOR DISCUSSION

### 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. This Annual Report is presented on behalf of the Audit Committee to cover the period of its operations from October 2014 to August 2015.

### Overview

3. The period of this Annual Report covers consideration of final accounts for 2014/15, 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 fourth year of delivery of internal audit services by KPMG, under a contract let jointly with Loch Lomond and the Trossachs National Park Authority (LLTNPA).
6. The Committee met four 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 Committee has continued to take a strategic oversight of the Authority's risk management strategy and regularly considered the strategic risk register. Reports presented have indicated risk trends allowing the impact of risk mitigation action to be assessed. The Committee will oversee the replacement of the existing strategic risk register with a new register tailored to the new 2015 to 2018 Corporate Plan early in the next year of its operations.
  - 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. There have been no specific reports brought to the Committee on LEADER over the period covered by this report, with the 2014/15 internal audit review of LEADER processes considered by the Committee in June 2014.
  - 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. There have been no significant changes to the Authority's accounting policies in 2014/15.
  - 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 has agreed to enter into the second a final annual extension to the current internal audit contract allowed for by the terms of the previous procurement process, with KPMG therefore continuing as internal auditor for 2015/16. A procurement process for internal audit provision will be undertaken over the course of the coming year to deliver internal audit from 2016/17.
- g) Consideration and agreement of forward internal audit activity plans: the Committee, in conjunction with the members of the LLTNPA Audit Committee, agree a forward plan of internal audit activity for each year, within a risk-based, rolling, three year internal audit programme.
- h) Best Value: the Committee considered an internal review of the Authority's position as assessed against revised Scottish Government guidance on delivering Best Value, and agreed an associated action plan and risk schedule, in September 2013. A review of progress against this action plan was completed and reported in September 2014.
- i) Best Value review of Planning Services: the Committee considered a Best Value review of the delivery of its Planning Services and endorsed an action plan to support delivering ongoing service improvement.

## 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  |
| The 2014/15 studies were:     |                           |      |          |     |
| Payroll and Pensions (Jan 15) | -                         | -    | -        | 4   |
| Project Management (Jan 15)   | -                         | -    | 2        | 2   |
| Records Management (Mar 15)   | -                         | -    | 1        | 2   |
| Planning Processes (Aug 15)   | -                         | -    | 2        | 5   |

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 top priority, 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 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. The Committee has noted that, while internal auditors submitted a report in the preceding year noting that progress in implementing agreed recommendations had not always been as quick as expected, good progress had been made over 2014/15 in acting on the backlog of recommendations and also taking forward any new areas for improvement.
14. The review of the planning processes within the Authority was deferred from February 2015 until May / June 2015 to allow for management of other organisational priorities. This review now therefore falls within the 2015/16 internal audit programme of work and reported to the August 2015 meeting. No overall reduction in internal audit days has been caused as a result of this deferral, with the 2015/16 audit time input increased to offset the 2014/15 reduction.
15. The Committee has considered the Internal Auditors’ Annual Report for 2014/15. 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”**.

## External Audit

16. The Authority's accounts for 2014/15 received a clear, unqualified external auditor's report and opinion from Audit Scotland, our external auditors.
17. 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 28 August 2015 and passed to Audit Scotland for signature and onward submission to Auditor General and Scottish Parliament.
18. At the time of writing this report, we are not aware of the scheduled date for the accounts being laid before Parliament.
19. This closure timetable represents a delay in the planned schedule for closure. This delay was primarily a result of a need to resolve agreed accounting treatment for income and expenditure associated with the Authority's role in facilitating the Speyside Way extension project, funded by SportScotland and Sustrans and delivered by Cairngorms Outdoor Access Trust (COAT). This project, and income, expenditure and cash flow impacts associated with it spanned the financial year end. Delay in resolution of accounting treatments resulted in the original accounts sign off target of late June 2015 being missed.
20. The Audit Committee considered Audit Scotland's report to those charged with governance on the audit of the 2014/15 accounts at its meeting of 28 August 2015. The report highlights five action points for consideration by management, which have been accepted and management responses and action timetables endorsed by the Committee.
21. The external audit report notes that: "no material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the 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

22. The Authority's strategic risk management policies and processes have supported delivery of the Corporate Plan for 2012 to 2015. The Committee has overseen the review and revalidation of the strategic risk register over this period.
23. The strategic risk register is now due to be replaced with a new register tailored to the new 2015 to 2018 Corporate Plan during the next period of the Committee's operations.

## Conclusions

24. The Audit 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.

25. 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.
26. 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.
27. 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 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 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.
28. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
29. 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 Committee members:

**Gordon Riddler (Convenor)**

**Dave Fallows**

**Jeanette Gaul**

**Gregor Hutcheon**

**Fiona Murdoch**

**28 August 2015** [davidcameron@cairngorms.co.uk](mailto:davidcameron@cairngorms.co.uk)