



cutting through complexity

CAIRNGORMS NATIONAL PARK AUTHORITY
Audit Committee Paper 1 Annex 1 26/06/2015

Cairngorm National Park Authority

Annual internal audit report

15 June 2015

This report is for:

Information

Chief executive

Audit committee

David Cameron, Corporate services director

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	Page
Background	2
Internal audit opinion	4
Summary of internal audit activity in 2014-15	6
Summary of completed assignments in 2014-15	7
Performance of internal audit	11
Appendix one: classification of findings	14

Notice: About this report

This Report has been prepared on the basis set out in our Engagement Letter addressed to the Cairngorm National Park Authority (“the Client”) dated 28 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.

Internal audit plan

Our internal audit plan for 2014-15, as agreed with the audit committee, was developed based on consideration of:

- previous years' internal audit plans, observations and key findings arising from internal audits conducted during 2013-14;
- discussions with members of the senior management team and comments from the chair and members of the audit committee;
- consideration of Authority's risk register, as developed and provided by management;
- requirements for internal audit;
- known changes in 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

Public Sector Internal Audit Standards ("PSIAS") require that the head of internal audit provides the audit committee with an annual internal audit opinion based on the work performed during the financial year. The audit committee should use this and other sources of assurance to make its annual report to the board. In addition, the opinion supports the audit committee and board's consideration of the governance statement included with the financial statements. The opinion of the internal auditor does not supersede Authority's responsibility for risk, control and governance.

Responsibilities for internal control

It is 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.

Limitations

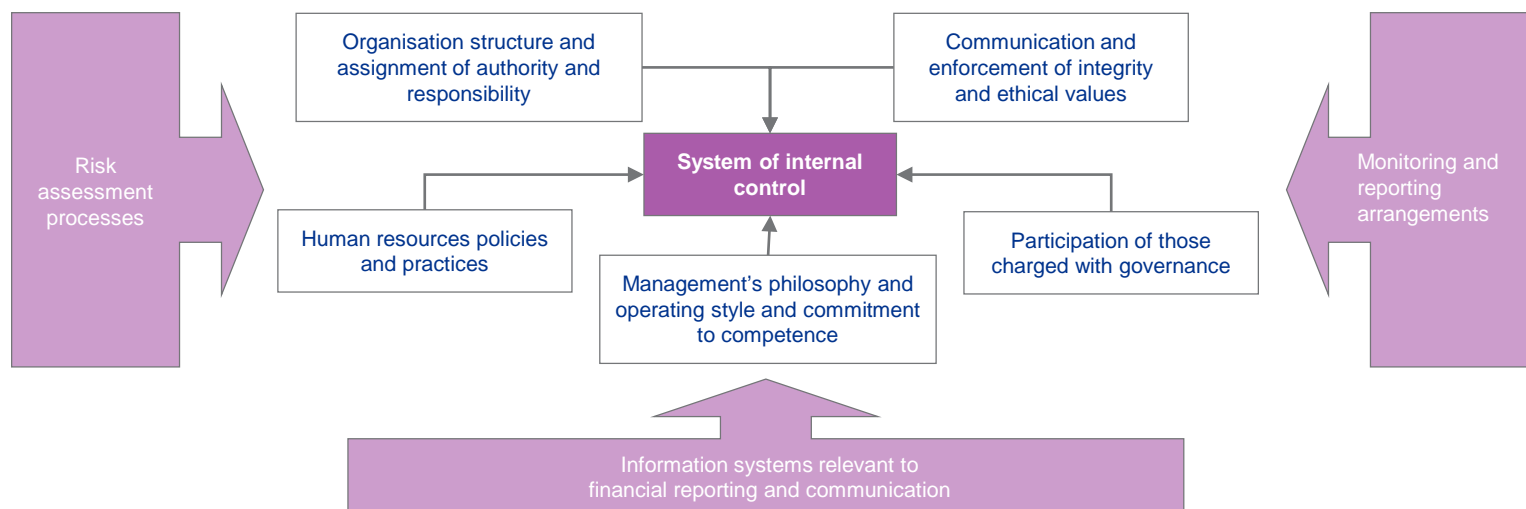
There are inherent limitations as to what can be achieved by internal control and, consequently, limitations in conclusions reached. These limitations include the possibility of incorrect management judgement in decision making, control breakdowns because of human error, control activities being circumvented 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 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's 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 2014-15;
- management's progress in implementing internal audit recommendations reported prior to 2014-15, and matters arising from our previous reports to Authority, as appropriate; and
- the effects of any significant changes in the Authority's objectives or systems.

2014-15 Head of Internal Audit Opinion to Cairngorm National Park Authority ('Authority')

Basis of opinion for the period 1 April 2014 to 31 March 2015

Our internal audit service has been performed in accordance with KPMG's internal audit methodology which conforms to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) or International Standard on Assurance Engagements (ISAE) 3000. PSIAS require that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform our work to obtain sufficient, appropriate evidence on which to base our conclusion.

Roles and responsibilities

The Board is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Accountable Officer, on behalf of the Board, setting out:

- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the Assurance Framework process; and
- the conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The Assurance Framework should bring together all of the evidence required to support the AGS.

The Head of Internal Audit (HoIA) is required to provide an annual opinion in accordance with Public Sector Internal Audit Standards, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the system of internal control). This is achieved through a risk-based programme of work, agreed with Management and approved by the Audit Committee, which can provide assurance, subject to the inherent limitations described below.

The purpose of our HoIA Opinion is to contribute to the assurances available to the Accountable Officer and the Board which underpin the Board's own assessment of the effectiveness of the system of internal control. This Opinion will in turn assist the Board in the completion of its AGS, and may also be taken into account by other regulators to inform their own conclusions.

The opinion does not imply that the HoIA has covered all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and Management-led Assurance Framework. As such it is one component that the Board takes into account in making its AGS.

Internal audit opinion (continued)

Opinion

Our opinion is set out as Basis for the opinion; Overall Opinion and Commentary.

The basis for forming our opinion is as follows:

- an assessment of the design and operation of the underpinning Assurance Framework and supporting processes;
- an assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the period. This assessment has taken account of the relative materiality of these areas; and

Our Overall Opinion for the period 1 April 2014 to 31 March 2015 is that:

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.

Commentary

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety. Our opinion covers the period 1 April 2014 to 31 March 2015 inclusive, and is based on the three audits that we completed in this year.

The design and operation of the Assurance Framework and associated processes

Overall our review found that the Assurance framework in place is founded on a systematic risk management process and does provide appropriate assurance to the Board.

The Assurance Framework does reflect the organisation's key objectives and risks and is reviewed on a quarterly basis by the Audit Committee.

The range of individual opinions arising from risk-based audit assignments, contained within our risk-based plan that have been reported throughout the year

We issued no reports with critical or high graded recommendations in respect of 2014-15 assignments.

We are issuing significant with minor improvements assurance as the organisation is implementing the recommendations raised as a result of our work to address the issues identified, and actions are expected to be in place by 31 March 2015.

KPMG LLP (Chartered Accountants)

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Summary of internal audit activity in 2014-15

Over the course of our reviews we identified no 'critical' or 'high' graded recommendations.

All recommendations were graded either 'moderate' or 'low'.

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.

2014-15 internal audit plan reference	Assignment	Assignment days	Status	Critical	High	Moderate	Low
				Recommendations			
1	Records management	3	Complete	-	-	1	2
3	Project management	6	Complete	-	-	2	2
4	Payroll and pensions administration	5	Complete	-	-	-	4
	Total	14		-	-	3	8

Summary of completed assignments 2014-15

We have summarised the findings of our internal audits undertaken during 2014-15.

We summarise below the findings of internal audits undertaken in line with the agreed 2014-15 internal audit plan.

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Records management	<p>The records management process was well implemented and we identified a number of areas of good practice.</p> <p>The RMP appears to be appropriate for the size of the organisation.</p> <p>Appropriate back-ups controls are in place and taken before any changes are made.</p> <p>Use of version control is well documented within policy documents.</p> <p>Restricting ability of folder creation maximises compliance with document structure and reduces inefficient use of storage.</p>	<p>We reported one 'moderate' risk graded finding in respect of a number of policies and procedures relating to the records management plan still being in draft format and not formally approved. The process could be improved through the timely approval of the policies and ensuring they are subject to regular update.</p> <p>We identified two 'low' graded recommendations that the records management process could be improved through:</p> <ul style="list-style-type: none"> ■ inclusion of the corporate performance manager's job description within the evidence sent to the Keeper of Records; and ■ formalisation of the timing for running duplicate reports. 	<p>The focus of this review included compliance with legislation and the achievement of good practice from the record management processes.</p> <p>We identified areas where value could be added and good practice could be achieved by the Authority through timely completion of review and approval of all policies and updating policies on a rolling basis.</p>

Summary of completed assignments 2014-15 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Project management	<p>To enable the tailoring of the project management controls based on the risk and size of the project the Authority has a project sizing document, which is used to assess all projects.</p>	<p>We noted two 'moderate' graded recommendations relating to:</p> <ul style="list-style-type: none"> ■ the development of an overarching project management policy; and ■ the project management policy and a review of all current projects to ensure the EqIA statutory requirements are being met and the outcomes published on the Authority's website. <p>We identified two 'low' graded recommendations that the project management process could be improved through:</p> <ul style="list-style-type: none"> ■ management review of the project initiation checklist prior to submission to the organisational management group; and ■ development of specific guidance for the closure of projects. 	<p>The areas for improvement are intended to enable more efficient project management; in particular to help ensure expected efficiencies are realised on future projects.</p> <p>Development of an overarching project management policy to provide a framework to support existing templates and guidelines, and give all staff a clear understanding of the project management requirements across the Authority.</p>

Summary of completed assignments 2014-15 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Payroll and pensions administration	<p>We noted the operation of segregation of duties including review procedures throughout the payroll process.</p> <p>The Authority is familiar with the information currently available regarding the 2015 pension charges and has taken steps to implement these, and deliver the new Civil Service pension arrangements to staff.</p>	<p>We identified four 'low' graded recommendation which related to:</p> <ul style="list-style-type: none"> ■ production of exception reports which should be reviewed on a monthly basis; ■ preparation of a monthly reconciliation between the personnel and the payroll databases; ■ update of the sickness absence policy to include a timescale for submission of sick absence forms and making it clear the onus is on the employees and their line managers to ensure timely submission of the form; and ■ management should consider alternative payroll and HR delivery methods. 	<p>The focus of this review included efficiency, enhancement and changes in the payroll regime including the achievement of value for money from the payroll and pension processes.</p> <p>The introduction of a customised exception report on a monthly basis would produce time savings and reduce the risk of error</p> <p>Management should conduct a cost benefit analysis to assess the potential savings in staff time and overall costs of alternative payroll and HR delivery methods. The personnel and payroll system are currently not integrated and amendments need to be inputted manually onto both systems. The introduction of an integrated personnel and payroll system would reduce the risk of human error and introduce efficiencies to the current control processes in place.</p>

Summary of completed assignments 2014-15 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Follow up	<p>As at 15 June 2015, progress had been made in addressing previously identified control weaknesses and performance improvement opportunities.</p> <p>Management reported 63% of recommendations made in 2014-15 as 'complete', with three recommendations due to be completed still 'in progress'.</p> <p>Management reported 82% of recommendations made in previous years as 'complete'.</p>	<p>Continued focus on outstanding recommendations will be required to ensure their timely completion.</p> <p>Five recommendations raised prior to 2014-15 are 'overdue' one 'moderate' graded related to community engagement and stakeholder satisfaction, two 'moderate graded related to general IT controls and two 'low graded recommendation relating to carbon management.</p>	-

We recognise the importance of implementing a performance framework that allows stakeholders to measure the contribution from internal audit. To monitor and demonstrate this, key performance indicators have been identified and are used to provide feedback, which is important to us and of value to you.

2014-15 performance summary

The table below summarises our performance against identified key performance indicators in 2014-15. A detailed timeline is presented in appendix two.

Key performance indicator	Target	Actual
Internal audit days completed in line with the agreed timetable	100%	100%
Compliance with mandatory internal audit standards	100%	100%
Draft scopes issued no later than 15 working days before the internal audit start dates	100%	100%
Draft reports issued within two weeks of exit meeting	100%	100%
Final reports issued within two weeks of receipt of management responses and within two weeks of audit committees	100%	100%
Agreed timetable for billing and administrative procedures	100%	100%
Ready access to core team members at all times	100%	100%
Attendance at meetings of the audit committee	100%	100%
Finalisation of the annual internal audit report by 30 June 2015	100%	100%

Compliance with standards

Based upon our ongoing assignment and client review processes, our internal audit service has complied with Public Sector Internal Audit Standards.

Quality control

Our aim is to provide a service that not only meets the Authority's needs but also maintains consistently high standards. This is achieved through the following internal processes:

- Preparation of a detailed audit plan which is agreed by management and the Audit Committee for approval.
- Regular review of progress against the plan to ensure we are delivering the work we have promised. In 2014-15 we completed all audit work as required with the exception of the Planning review which has been deferred to 2015-16 at the request of management to allow for workload and staff management priorities.
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to KPMG's review protocol.
- The use of qualified, highly trained and experienced staff.
- Monitoring of performance against targets.
- The review of all audit files and reports by Andy Shaw (Director) and Matthew Swann (Senior Manager)
- Reviews of a random sample of files by staff from other offices within the firm to ensure they comply with KPMG's standards of technical excellence and client service.

Appendix

Appendix two

Classification of internal audit 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.

Classification of internal audit 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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