



*cutting through complexity*

# Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority

2015-16 annual internal audit plan

**DRAFT**

8 June 2015

This report is for:

**Action**

*Audit committee*

**Information**

*Gordon Watson, chief executive (Loch Lomond & The Trossachs National Park)*

*Grant Moir, chief executive (Cairngorms National Park)*

*Jaki Carnegie, director of corporate services (Loch Lomond & The Trossachs National Park)*

*David Cameron, corporate services director (Cairngorms National Park)*

	<b>Page</b>
<b>Introduction and background</b>	2
<b>A tailored and risk-based approach to internal audit</b>	4
<b>Internal audit strategic plan</b>	5
<b>2015-16 annual internal audit plan</b>	7
<b>Appendix one: key performance indicators</b>	13

**Notice: About this report**

This Report has been prepared on the basis set out in our Engagement Letter addressed to the Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority dated 28 June 2011 and extended as of the letter dated 25 August 2014 (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.

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## Background

Internal audit is an independent appraisal of the adequacy and effectiveness of the internal control process operating in an organisation. Internal audit supports the Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (“the Authorities”) and senior management in achieving agreed strategic and operational objectives and in discharging their corporate governance responsibilities. Internal audit's roles are to: assess how operating risks are being managed and controlled and report to senior management and the audit committee on the results of these assessments; and influence the continuous development of the risk management and control process through sharing best practice.

## Introduction

This strategic and annual internal audit plan sets out the scope of the planned work to be undertaken by internal audit for 2015-16. These plans were developed based on consideration of the following:

- suggested areas of focus from, and discussion with, members of the senior management team;
- comments from the members of the audit committees;
- consideration of the risk registers;
- requirements for internal audit;
- the previous year's internal audit plan;
- observations and key findings arising from previous internal audits;
- changes in the operating environment and state of control as identified through discussion with management; and
- consideration of key business processes.

**Your internal control process comprises all aspects of control including managerial, operational and financial. It embraces not only internal control objectives, but also the requirements of relevant legislation and of external regulators.**

### Introduction (continued)

The plan categorises risks and internal audit coverage across four areas:

- Financial – Financial risks, including Scottish Government funding cuts and reductions in other funding, including partnership funding, as well as increasing cost pressures.
- Operational – Risks to the success of delivery of operations at the Authorities, including the risk of non-achievement of aims and targets, inadequate staffing resource, inadequate performance of partners and the impact of economic decline on operational delivery.
- Reputational – Reputational risks include visitor reputation, as well as wider risks, such as risks to the ecosystems.
- Probity – The risk of inadequate corporate governance or risk management arrangements, as well as compliance with relevant regulations.

Internal audit is not itself part of the internal control system, nor is it responsible for internal control or for compliance, which remains the responsibility of management. Internal audit's work will normally include, but is not restricted to:

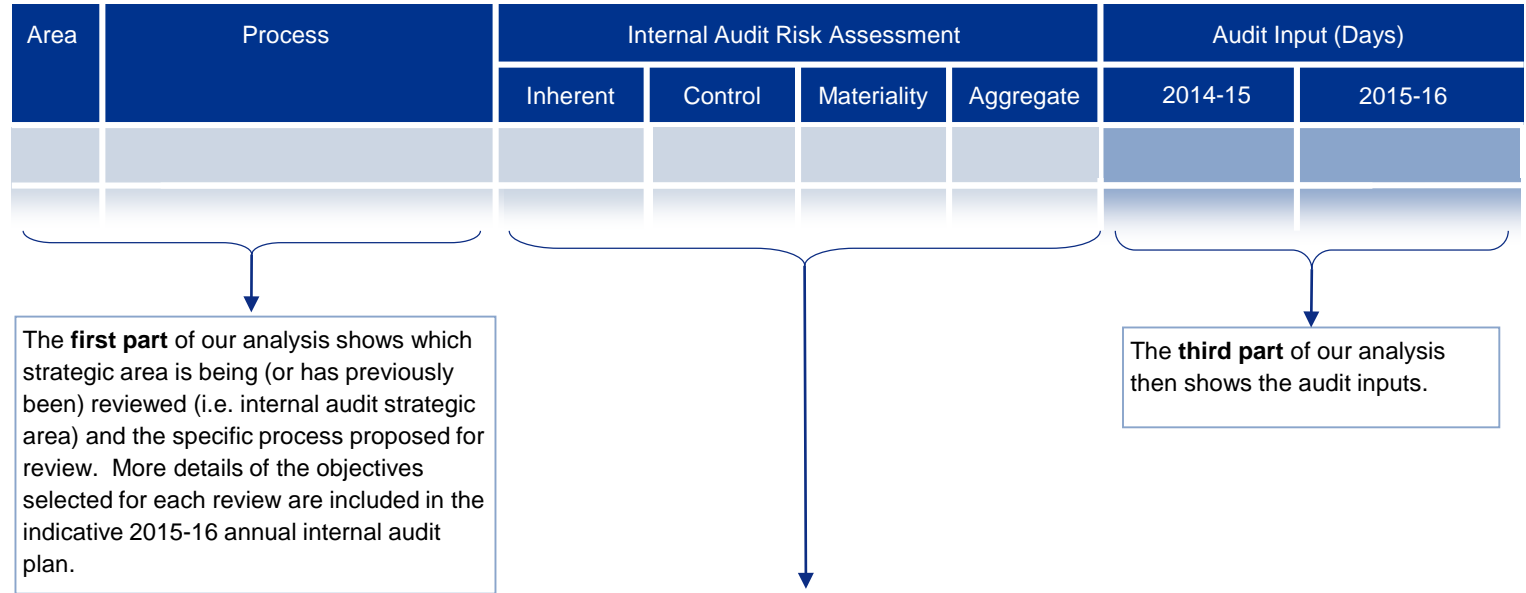
- reviewing the risk management and internal control processes developed and maintained by management to ensure the achievement of agreed strategic and operational goals and objectives;
- assessing compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations;
- identifying arrangements to ensure safe custody of assets and, where appropriate, verifying the existence of assets; and
- considering the robustness of arrangements to ensure the effective and efficient use of resources.

### Independence

Independence is established by organisational status through reporting lines and by members of internal audit carrying out their duties freely and objectively.

Independence and objectivity will be deemed to be impaired if internal audit staff are required to carry out any executive or operational duties. In order to assure the independence of internal audit, the prime upward reporting line is to the audit committee. An executive reporting line is required for day to day and administrative purposes, such executive reporting is to the corporate services director / director of corporate services.

We have used the following internal audit risk assessment process to analyse the processes under review:



The **second part** of our analysis uses the following risk assessment process to analyse the process under review:

Inherent risk	Control risk	Materiality	Aggregate
Our assessment of the overall level of risk associated with the audit area – this is effectively a gross relative risk of the potential impact on the Authority of this area.	Our assessment of the risk that exists within a particular area based upon the controls that we are aware the Authority has in place – this is effectively the likelihood of the risk being realised.	Our assessment of the potential financial or reputational consequence to the Authority. This might be judged by the potential for a monetary loss or the extent to which it impacts on core business objectives.	This is our overall assessment of risk associated with each of the audit areas. It is reached with regard to each of the previous assessment of risks.

Risk category	Process	2015-16 internal audit plan reference	Internal audit risk assessment				Audit coverage					
			Inherent	Control	Materiality	Aggregate	2014-15			2015-16		
							L	C	Tot	L	C	Tot
Financial	LEADER review	-	Medium	Medium	Medium	Medium	-	-	-	-	-	-
	Commercial developments	1	High	Medium	Medium	Medium	-	-	-	3	2	5
	<b>Total days</b>						<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>2</b>	<b>5</b>
Operational	Records management	-	Medium	High	Medium	Medium	3	3	6	-	-	-
	Post-implementation of records management and project management	2	Medium	Medium	Medium	Medium	-	-	-	3	4	7
	Planning processes and systems (re-scheduled from 2014-15) at management request	3	Medium	Medium	Medium	Medium	-	4	4	-	4	4
	Workforce management and appraisals	-	High	Medium	Medium	Medium	-	-	-	4	4	8
	<b>Total days</b>						<b>3</b>	<b>7</b>	<b>10</b>	<b>7</b>	<b>12</b>	<b>19</b>
Reputational	Project management	-	High	Medium	High	High	6	6	12	-	-	-
	Complaints handling	4	Medium	Medium	Medium	Medium	-	-	-	4	4	8
	<b>Total days</b>						<b>6</b>	<b>6</b>	<b>12</b>	<b>4</b>	<b>4</b>	<b>8</b>

Risk category	Process	2015-16 internal audit plan reference	Internal audit risk assessment				Audit coverage					
			Inherent	Control	Materiality	Aggregate	2014-15			2015-16		
							L	C	Tot	L	C	Tot
Probity	Payroll and pensions administration	-	Medium	Medium	High	Medium	5	5	10	-	-	-
	Fixed asset register	-	Medium	Medium	High	Medium	4	-	4	-	-	-
	Controls risk self assessment	5	Medium	Medium	High	Medium	-	-	-	3	3	6
	Governance and new board members – roles and inductions	6	High	Medium	High	High	-	-	-	4	4	8
	<b>Total days</b>						<b>9</b>	<b>5</b>	<b>14</b>	<b>7</b>	<b>7</b>	<b>14</b>
<b>Total days for internal audits</b>							<b>18</b>	<b>18</b>	<b>36</b>	<b>21</b>	<b>25</b>	<b>46</b>
<b>Follow-up of previous internal audit recommendations</b>							-	-	3	-	-	3
<b>Contract management</b> (including annual internal audit plan and annual internal audit report)							-	-	9	-	-	9
<b>Total internal audit days</b>							-	-	<b>48</b>	-	-	<b>58</b>

The composition of the 2015-16 internal audit plan is summarised below. The specific objectives, scope and approach of each internal audit will be agreed with the internal audit sponsor, and manager responsible for the process subject to internal audit, prior to the commencement of individual internal audit projects.

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
1	Commercial Developments	<ul style="list-style-type: none"> <li>Commercial development activities are not aligned to strategic aims and objectives, diverting key resources away from these.</li> <li>Processes over pricing, budgeting, contract management, monitoring and reporting are not sufficiently robust to mitigate the risk of financial or reputational damage to the authority.</li> <li>Goods and services are not appropriately charged for.</li> </ul>	<p>We will consider:</p> <ul style="list-style-type: none"> <li>the adequacy and effectiveness of arrangements to manage risks that commercial activities are not aligned to the authorities strategic aims and objectives;</li> <li>the adequacy and effectiveness of budgetary control and financial reporting arrangements across commercial income generating projects;</li> <li>the appropriateness of arrangements to monitor progress against contract terms;</li> <li>the effectiveness of the reporting arrangements to those charged with governance over income;</li> <li>processes for considering and approving new commercial income streams; and</li> <li>how management ensures goods and services are appropriately charged for.</li> </ul>	3	2	5



Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
2a	Post-implementation of project management	<ul style="list-style-type: none"> <li>Undefined project benefits and outcomes, financial and non-financial, lead to inefficiencies or non-achievement of project objectives.</li> <li>Delays in key projects lead to inefficiencies, increased costs and non-achievement of targets or strategic objectives.</li> </ul>	<p>At the time of the 2014-15 review, CNPA was yet to implement its new project management process. We will consider the post-implementation of the project management process, specifically we will:</p> <ul style="list-style-type: none"> <li>review the adequacy and robustness of the overarching project management framework;</li> <li>review and test processes to manage project initiation, delivery and completion including risk assessment and subsequent authorisation steps; and</li> <li>select a sample of projects and test implementation and effectiveness of project management controls.</li> </ul>	2	2	4
2b	Post-implementation of records management	<ul style="list-style-type: none"> <li>Records management system migration is not effectively planned, with risks of data being lost or compromised not mitigated.</li> <li>Data is not transferred appropriately, resulting in inefficiencies or service deterioration.</li> <li>The records management system is not structured in an efficient and user-friendly manner.</li> <li>Staff are not aware of the functionality of the new system or their responsibilities in respect of data integrity.</li> </ul>	<p>The pre-implementation review of records management was carried out as part of the 2014-15 plan in respect of pre-implementation, with a post-implementation review planned for 2015-16. Given the stages of implementation across both authorities the post-implementation review will focus on CNPA, with coverage at LLTNPA included as part of follow up. We will:</p> <ul style="list-style-type: none"> <li>verify policy and procedures have been updated to reflect changes in the records management system;</li> <li>assess the plans for training of new staff and communication of user testing and remapping responsibilities;</li> <li>test the monthly reviews of file structure to ensure the new file structure is being followed; and</li> <li>verify named individuals have responsibility for the retention policy and test to ensure it is being adhered to.</li> </ul>	1	2	3

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
3	Planning processes and systems	<ul style="list-style-type: none"> <li>Development is approved that is not in line with strategic goals (e.g. conservation).</li> <li>Unapproved development is undertaken within Park boundaries.</li> <li>Planning approvals do not represent an appropriate mix of stakeholders.</li> <li>Reputational damage from any of the above.</li> </ul>	<p>This review will look at the processes and practices for Planning applications which have been adopted in response to the Scottish Government modernising planning agenda. It will examine if new processes are delivering a more successful planning service.</p> <p>Our work will include</p> <ul style="list-style-type: none"> <li>review of the pre-application advice service and the value this is adding to the planning application process;</li> <li>review of the project management of significant planning applications; and</li> <li>review of the implementation and effectiveness of Service Improvement Plans, Development Plan Charter and Planning Performance Frameworks.</li> </ul>	-	4	4
4	Workforce management and appraisals	<ul style="list-style-type: none"> <li>Failure to achieve strategic objectives.</li> <li>Inability to manage staff performance and retain key talent.</li> <li>Mis-alignment of personal, department and Authority-wide objectives.</li> </ul>	<p>Achievement of the strategic plans requires engagement by all staff and alignment of goals and objectives should contribute to strategic performance.</p> <p>This joint review will assess the extent to which:</p> <ul style="list-style-type: none"> <li>strategic goals are appropriately cascaded across operational and support functions and down through lines of reporting and accountability;</li> <li>assess the extent to which the authorities consider the arrangements to retain and develop talent within its workforce;</li> <li>management supports continuous improvement in staff performance; and</li> <li>performance against objectives is assessed in a robust and evidence-based manner.</li> </ul>	4	4	8

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
5	Complaints handling	<ul style="list-style-type: none"> <li>■ Failure to respond to complaints on timely basis.</li> <li>■ Failure to resolve complaint requests.</li> </ul>	<p>The review will focus on the processes and controls in relation to handling complaints. The review will include consideration of:</p> <ul style="list-style-type: none"> <li>■ the adequacy of training and development of staff who handle complaints;</li> <li>■ the timeliness and accuracy of resolution of complaints; and</li> <li>■ the adequacy of the processes to escalate complaints, which are difficult to resolve.</li> </ul>	4	4	8
6	Controls risk self assessment	<ul style="list-style-type: none"> <li>■ Key controls over financial processes do not prevent or detect fraud, error or non-compliance in a timely manner.</li> <li>■ Key financial processes do not address identified risks or provide the required assurance.</li> </ul>	<p>We will select a sample of financial controls at each Authority focussing on areas of significant risk and test whether:</p> <ul style="list-style-type: none"> <li>■ the control is designed appropriately and implemented i.e. whether the control is designed appropriately to manage stated risks; and</li> <li>■ the control is operating effectively i.e. whether the control is operating in line with procedures and in a timely manner.</li> </ul> <p>Our review will test controls at both Authorities. In evaluating the results of our work, we will compare the systems and processes at each Authority to enable sharing of best practice and areas for improvement.</p>	3	3	6

Ref	Internal audit area	Risks	Indicative scope	Planned days		
				L	C	Tot
7	Governance and new board members – roles and inductions	<ul style="list-style-type: none"> <li>There is insufficient support and co-ordination between management, the Board and the Audit Committee, resulting in a fragmented understanding and approach.</li> <li>The Authorities are not prepared for the induction of new Board members.</li> </ul>	<p>The governance review will enable the Authorities to assess the design and effectiveness of its key governance policies and processes.</p> <p>We will also interview selected Board and audit committee members to obtain their views on the current governance arrangements, induction processes, learning and development and assess their effectiveness.</p> <p>We will compare our findings to good practice identified across the public sector.</p>	4	4	8

# Appendices

We recognise the importance of implementing a performance framework that allows stakeholders to measure the contribution from internal audit. To monitor and demonstrate this, we will continue to report our performance against KPI's, which is important to us and of value to you.

Key Performance Indicator	Target
<b>Provision of service and planning</b>	
The planned and actual outturn for the time employed on the audit of each review will not be greater than that within the annual plan, unless previously agreed with the Authority.	100%
The Head of Internal Audit or Audit Senior Manager will attend all Audit Committee meetings.	100%
<b>Approach</b>	
Audit terms of references will be agreed with management at least 15 working days before planned commencement of audit.	100%
We will hold an opening meeting with relevant staff and management either prior to, or on the first day of fieldwork.	100%
We will agree with management the systems and control objectives of each Internal Audit scope prior to the commencement of our work.	100%
We will hold an exit meeting to discuss the findings of our review with the relevant Authority staff and management either on the final day of onsite work or within two working days of receipt of final provision of all information.	100%
<b>Reporting</b>	
Draft reports will be issued within two weeks of exit meeting and final provision of information.	100%
Management responses will be received within two weeks of the draft report being issued.	100%
Final reports will be issued within two weeks of receipt of management responses.	100%
Finalisation of the annual internal audit report by 30 June 2016.	100%



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