KPMG

cutting through complexity

Cairngorms National Park Authority

Annual internal audit report

15 May 2014

This report is for:

Audit Committee

Grant Moir, chief executive

David Cameron, corporate services director

The contacts at KPMG in connection with this report are:

Andy Shaw
Director, KPMG LLP

Tel: 0131 527 6673
Fax: 0131 527 6666
andrew.shaw@kpmg.co.uk

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 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.

Based on our work undertaken in 2013-14, 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 the objectives of the Cairngorms National Park Authority ("the Authority").

Assessment of the effectiveness of the system of internal control

This report of our 2013-14 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 2013-14, 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 2013-14, agreed with the audit committee, was developed based on consideration of:

■ discussions with members of the senior management team and audit committee;

■ consideration of the Authority's risk register, as developed and provided by management;

■ requirements for internal audit;

■ our experience from internal audit reviews undertaken in prior years;

■ 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

It is accepted 'best practice' that the lead of the internal audit service 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 2013 to 31 March 2014. The audit committee should use this and other sources of assurance to make its annual report. In addition, we would expect our report to inform the audit committee and board's consideration of the governance statement included within the financial statements. The opinion of the internal auditor does not supersede the 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. 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 continues 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's staff, observing the application of specific controls and inspecting documents and reports.
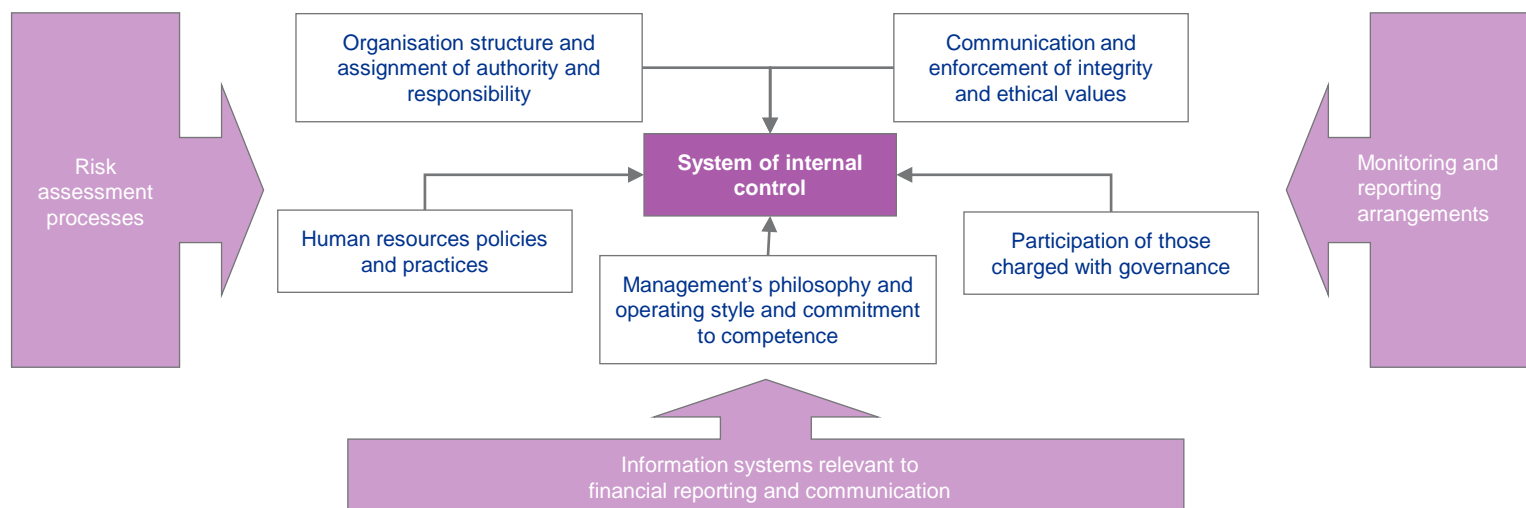
In assessing the level of assurance given, we have considered:

- internal audit work undertaken during 2013-14;

- management's progress in implementing internal audit recommendations reported prior to 2013-14, as appropriate;

- the effects of any significant changes in the Authority's objectives or systems.

In completing the 2013-14 internal audit plan we identified and reported 21 recommendations. We identified one graded 'high', nine graded 'moderate', and eleven 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			
Financial management, planning, and efficiencies	3	Complete	-	-	-	1
LEADER review	4	Complete	-	-	1	2
Control risk self-assessment	3	Complete	-		2	2
Regulatory compliance	2.5	Complete	-	1	2	1
Planning processes and systems*	-	Postponed	-	-	-	-
IT general controls*	4	Complete	-	-	3	2
Carbon management/internal sustainability	3	Complete	-	-	1	3
Total	**19.5**		**-**	**1**	**9**	**11**

*Following discussions with management, the planned joint review of planning processes and systems was postponed and a review of IT general controls was performed instead.

We have summarised the findings of our internal audits undertaken during 2013-14.

We summarise below the findings of internal audits undertaken in line with the agreed 2013-14 internal audit plan.

Assignment	Summary of findings
Financial management, planning, and efficiencies	The objective of the audit was to consider the Authority's policies and procedures for financial management, planning, and efficiencies and the extent to which they support strategic plans. The Authority has a well developed formal financial planning process for budget setting and financial planning. The responsibilities for the annual budget setting process have been embedded within its 'financial management framework and regulations document'. The budget setting process is led by senior management within the finance teams, and includes input from department and project managers. The Authority has identified efficiency targets for 2013-14 to comply with the Scottish Government's 3% efficiency savings target – these have been incorporated into annual budgets. Based on the scope of our review and the testing undertaken, controls appear appropriate to ensure that processes for financial management, planning and efficiencies are performing as intended. We raised one 'low' graded recommendation emphasising potential improvement in the identification and monitoring of efficiency savings.
LEADER review	The LEADER program refers to European funding made available to enhance rural communities. The Authority has been responsible for the financial management of the local LEADER programme since the foundation of the national park in 2003. The current LEADER programme ran until 31 December 2013 and has a value of approximately £2.58 million in European funding. The objective of the audit was to provide assurance over key processes and controls surrounding the cycle from claims processing through to final payment and project closure. The audit trail for grants was considered along with the adequacy of supporting documentation and the processes for project on-the-spot and ex-post inspections. Based on the scope of our review and the testing undertaken, the Authority's processes over the cycle of LEADER claims to closure appear to be operating effectively. In respect of the period to 31 August 2013 (report dated September 2013) we identified one 'moderate' graded recommendation in relation to the proper authorisation of payments. Two 'low' grade recommendations were also identified in relation to sample selection and quicker submission of annual confirmation certificates. A subsequent LEADER review covering the period September 2013 to April 2014, performed in May 2014, did not identify further recommendations; the previous review recommendations having been implemented.

Assignment	Summary of findings
Control risk self-assessment	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. We then complete corroborative testing over a sample of these controls. The Authority achieved an overall score of 92% from the 2013-14 CRSA review. This is a slight deterioration from the prior year (score of 94% achieved) but is in-line with similar organisations (93%). Two 'moderate' and two 'low' graded recommendations were made. In particular, we recommended that bank reconciliations should be reviewed and authorised in a timely manner, and that journal entries should be authorised by an appropriate level of management prior to posting.
Regulatory compliance	There is a large range of regulatory requirements with which the Authority must comply. They cover various areas of the Authority's activities including health and safety, human resources, payroll, conservation and governance. Responsibility for remaining up to date with regulation is delegated to different relevant areas in the Authority, with ultimate responsibility being held by the executive. The Authority needs to be pro-active in monitoring compliance with current regulations to ensure that policies and procedures still comply with relevant regulations. The objective of the audit was to consider the Authority's processes to ensure that all relevant regulations are identified and to ensure that management and staff are aware of such regulations to ensure the Authority is able to comply with them. Based on the scope of our review and the testing undertaken, it appears that the Authority's processes related to regulatory compliance are generally effective although we identified four recommendations to improve processes. We identified one 'high', two 'moderate', and one 'low' graded recommendations which will improve the Authority's ability to ensure overall compliance with regulations. We noted that Health and Safety audits should be carried out more regularly, with the results addressed within 12 months. A formal process for employees to confirm that they have read and understood the Health and Safety policy should be implemented and the Authority's policies and procedures should be subject to formal regular reviews to ensure they remain compliant with current legislation.

Assignment	Summary of findings
IT general controls	The Authority utilises a number of computer programs in the day-to-day running of the organisation including the SAGE, Snowdrop, and Microsoft Office applications. IT general controls are these controls that apply across system components, processes and data for a particular IT environment. The objectives of IT general controls are to ensure the proper development and implementation of applications, as well as the integrity of progress, data files and computer operations. The objective of this audit was to assess the design, implementation, and operating effectiveness of a sample of IT general controls. We identified three 'moderate' and two 'low' graded recommendations regarding this review. Recommendations identified relate to the tracking of adherence to software license agreements, timely completion of leavers and movers forms, the creation of a disaster recovery procedure and server room physical access.
Carbon management/internal sustainability monitoring	One of the aims set out by the Scottish Government for Scotland's national parks is to "promote the sustainable use of the natural resources of the area''. It is important that the Authority is seen to be appropriately monitoring and managing the environmental impact of its operations. We therefore performed a review of the Authority's processes for monitoring and reporting of sustainability modules. Based on the scope of our review and the testing undertaken, the Authority's processes for internal sustainability reporting appear to be designed and operating effectively, although we identified a number of areas with opportunities for improvements. We raised one 'moderate' and three 'low' graded recommendations, particularly focusing on compliance with Scottish Government best practice for CO_2 emission reports, review of purchased energy for assets and increasing staff awareness of carbon management initiatives.

Appendices

Key performance indicators

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 report our performance against key performance indicators, which is important to us and of value to you.

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 date.	100%	100%
Draft reports issued within two weeks of exit meeting	100%	83%
Final reports issued within two weeks of receipt of management responses and within two weeks of audit committee meeting	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 and pre meeting with relevant director	100%	100%
Draft annual internal audit report to be available by 30 April 2014	100%	100%
Finalisation of the annual internal audit report by 30 June 2014	100%	100%

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.	■ Potential financial impact of more than 2% 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. ■ 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 litigation or prosecution and/or penalty. ■ Life threatening.	■ 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.	■ Potential financial impact of 1% to 2% 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.	■ 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 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.	■ Potential financial impact of 0.5% to 1% 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.	■ 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.	■ Potential financial impact of less than 0.5% 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.	■ 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.