

## CAIRNGORMS NATIONAL PARK AUTHORITY

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### FOR DISCUSSION

**Title:                   AUDIT COMMITTEE ANNUAL REPORT**

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

#### **Purpose**

To present the Audit Committee Annual Report to the Board.

#### **Recommendation**

The Board is requested to consider the annual report to the Board, set out in the paper and to:

- a) Consider the report and discuss any issues raised by the Committee's work in the year.
- b) Note the report.
- c) Note the updated strategic risk register supporting delivery of the 2012 to 2015 Corporate Plan.

#### **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 September 2012 to September 2013.

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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 September 2012 to September 2013.

### Overview

3. The period of this Annual Report covers consideration of final accounts for 2012/13, 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 second 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 five times over the period covered by this report, including a strategic risk management workshop with members of senior staff supported by KPMG.
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 led the complete renewal of the Authority's Strategic Risk Register to ensure the risks identified in the register are relevant to the current 2012 to 2015 Corporate Plan. The Committee participated in a workshop to identify and prioritise risks, and have since considered potential mitigation actions and residual risks should those actions be successfully implemented. The finalised, revised strategic risk register is presented at Annex I to this paper.
  - 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. The Committee has considered reports from the internal auditors on this area.
  - c) Scottish Government Procurement Capability Assessment: the Committee has received updates on the implementation of this work.
  - d) Accounting Policy: the Committee reviewed and agreed revised accounting policies dealing with reporting of intangible assets held by the Authority. This policy addresses the open reporting of the value of software and would also be relevant for any future brand development activity. The Committee considered within this policy deliberation the appropriate accounting treatment

of the National Park brand, with a decision that while the overall brand management remains to a great extent at arm's length from the Authority it remains appropriate not to account for the NP brand as an intangible asset. This position will be reviewed as the management arrangements for the brand itself are reviewed.

- 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: 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.
- 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 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.

## 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
Financial Controls (Mar 13)	-	-	-	5
Performance Management (Mar 13)	-	-	-	2
Partnership Working (June 13)	-	-	-	2
Visitor Experience (June 13)	-	-	-	1
2012/13 Total (4 studies)	0	0	0	10

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 once again no critical or highest priority recommendations have been raised by internal audit over the course of the 12 months covered by this report. In fact, only 10 recommendations for improvements in systems and controls have been highlighted from 4 new audit reports received in the 12 month period, with all 10 recommendations being graded as “low” priority.
  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.
  14. All scheduled internal audit work the period was undertaken.
  15. The Committee has considered the Internal Auditors’ Annual Report for 2011/12. The internal auditor’s annual report for each year concludes: “**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.**”

## External Audit

16. The Authority’s accounts for 2012/13 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 2011/12 were considered and approved by the Committee in on 16 August 2013, noting a few very minor final amendments required. Accounts were subsequently signed on 23 August 2013.
18. This closure timetable represents a delay compared with that achieved over the previous 3 to 4 years. While the Committee had hoped to approve accounts for

signature at its meeting of 21 June, in line with previous years' timetables, at that point information from the Authority's pension providers remained outstanding. Also, staff had not at that point been able to fully reconcile the Authority's financial position as the lead Authority for the Cairngorms LEADER LAG. This position had been complicated by an ongoing national LEADER file review as a result of wider concerns around national eligibility of some forms of projects. Consequently, some 9 months of grant claims remained outstanding at the point of drawing together final accounts, compounded by difficulty for the new Interim Finance Manager in working through assumptions and working papers left by the previous manager.

19. The Annual Report and Accounts were submitted to the Auditor General on 26 August. The Committee received an update at its meeting of 13 September that the Auditor General's office had approved these accounts for release on 6 September and that they should be laid before Parliament by the end of September.
20. The Audit Committee considered Audit Scotland's report to those charged with governance on the audit of the 2012/13 accounts at its meeting of 16 August. The report highlights there were no material weaknesses in the accounting and internal control systems identified during the audit. For 2012/13 only one significant finding was reported as arising during the course of the audit:
  - a) Reconciliation of trade receivables as they relate to LEADER opening and closing balances for 2012/13. This issue relates to one of the causes of delay in closure of the final audit, as reported at item 17.
21. The Audit Committee also considered Audit Scotland's annual report on the 2012/13 audit at its meeting in September 2013. Issues arising in that report of significance to be addressed by management:
  - a) Again in relation to LEADER, in this instance referring to the Authority's requirement to complete the file review of live LEADER projects by the end of August as required under the national review of the LEADER Programme by Scottish Government. The Committee heard at its meeting in September that this work had been completed within the deadlines agreed with Scottish Government.
  - b) Noted that the work on reviewing the Authority's Best Value policies had slipped from the March 2013 due date as a result of additional work arising on LEADER and staff restructuring and that this work was scheduled to come to the Audit Committee in September 2013.

### **Strategic Risk Register**

22. The Strategic Risk Register supporting delivery of the Authority's Corporate Plan 2012 to 2015 is set out at Annex I to this report.
23. The Committee members have worked with staff in fully renewing the risk register to reflect our collective assessment of key risks faced by the Authority in delivering its Corporate Plan objectives. This risk register therefore focuses very much on the work of the Authority itself, rather than a wider risk assessment of the priorities set out within the National Park Partnership Plan (NPPP) and the collective delivery of those NPPP aims.

24. The Strategic Risk Register the key risks facing the organisation (the “inherent” risk to delivery of objectives) and draws out proposed “mitigation” actions aimed at reducing the overall risk (leaving the “residual” risk). At this point in time, the register is structured in priority of original, inherent risk level, as in most cases mitigation actions are at relatively early stages of implementation and there has been limited opportunity to consider their effectiveness in acting to reduce risk as planned.
25. The Committee has now agreed this new Strategic Risk Register to form the basis of risk management actions by the Management Team and officers. One remaining action for the Management Team will be to allocate management responsibility for each of these strategic risks to a Director or Head of Service.
26. Over time, the Committee expects to place attention on the extent to which mitigation actions are in place and appropriately resourced, and to revert to consider residual risk as its main focus for risk management. In this regard, the Committee will consider the trend over time in risk assessment with an expectation that risk levels will be managed downward where possible.
27. New risks faced by the organisation will also be considered and included in the strategic risk register if appropriate on an ongoing basis, with existing risks removed once considered to have effective mitigation arrangements in place.

## Conclusions

28. 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.
29. The Committee warmly welcomes the maintenance of success in closing annual accounts and completing the external audit process promptly each year. The Committee would like to take this opportunity in reporting to the Board to register its thanks to all staff involved in this process and to the effective work of the Audit Scotland team led by Asif Haseeb.
30. The Committee members also noted that this year in particular saw very difficult circumstances for staff with Alistair Hight, a key and highly valued member of staff, sadly passing away very suddenly. In this very sad context, the success in closing off the annual accounts and audit processes so promptly and thoroughly is particularly welcomed.
31. There has been an engagement 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.
32. Both the internal auditors’ finding of reasonable assurance regarding the effective and efficient achievement of strategic objectives within the Authority, and the external auditors’ unqualified audit certificate, provide assurance to the Committee and Board that the Authority’s internal control and governance objectives are being met effectively by management.

33. The Committee would like to bring to the Board's attention a comment from the external auditors that working papers were of a high standard and staff provided excellent support to the team.
34. It is also highly reassuring for Committee members to see that only a few 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.
35. The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
36. 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.

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**16 September 2013**

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