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

Internal audit report 2016.6

Governance and board member engagement

8 February 2016

Contents

This report is for:

Action

David Cameron, Corporate Services Director *(Cairngorms National Park)*

Jaki Carnegie – Director of Corporate Services *(Loch Lomond & The Trossachs National Park)*

Information

Audit Committee

Notice: About this report

This Report has been prepared on the basis set out in our Engagement Letter addressed to Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority ("the Clients") dated 15 June 2011 and extended as of the letter dated 28 August 2014 (the "Services Contracts") 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 Clients only. This Report has not been designed to be of benefit to anyone except the Clients. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Clients, even though we may have been aware that others might read this Report. We have prepared this report for the benefit of the Clients alone. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Clients) for any purpose or in any context. Any party other than the Clients that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, through the Clients' 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 Clients. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Clients 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 sector.

Introduction and background

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Introduction and scope

In accordance with the 2015-16 annual internal audit plan for Loch Lomond & The Trossachs National Park Authority ("LLTNPA") and Cairngorms National Park Authority ("CNPA"), as approved by the audit committees, we have performed an internal audit review governance and board member engagement at LLTNPA and CNPA ("the Authorities").

The specific objective, scope and approach, as agreed with management, is detailed in appendix one.

Background

Since 2014 guidance related to the expectations of Code of Conduct of boards of public bodies has been issued, providing greater clarity on the induction and operations of board members. The main guidance is On Board Guide for Board Members of Public Bodies in Scotland (April 2015) and the Model Code of Conduct for Members of Devolved Public (February 2014). We compared our findings against the guidance and have highlighted any areas of non compliance within the action plan.

The Authorities have three types of board appointment:

- appointments made by Scottish Ministers following recruitment processes;
- locally elected members from within the Authority boundary; and
- members nominated by the councils within the park boundary.

Terms for each appointment vary across each Authority, but typically are between 18 months and four years. These different types of appointment are intended to ensure that there is sufficient representation from Government and the local community working together in the best interests of each Authority in the achievement of strategic aims.

The Authorities need to have an awareness of the differences of appointment method when assessing performance of board members. For ministerial appointments any issues can be referred to Scottish Government, with nominated and elected members additionally answerable to either the local council or the electorate.

Executive summary: Key findings and recommendations

We identified no 'critical', 'high' or moderate graded recommendations for either Authority in the course of our work.

LLTNPA:
We identified one 'low' graded recommendation. We also identified areas of good practice.

CNPA:
We identified one 'moderate' and one 'low' graded recommendation. We also identified areas of good practice.

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Management has accepted the findings and agreed reasonable actions to address the recommendations.

	Authority	Critical	High	Moderate	Low
Number of internal audit findings	LLTNPA	-	-	-	1
	CNPA	-	-	1	1
Number of recommendations accepted by management	LLTNPA	-	-	-	1
	CNPA	-	-	1	1

The audit of the governance and board member engagement in both Authorities showed that the arrangements and controls are appropriately designed and are operating effectively on the whole.

LLTNPA

No moderate graded recommendations were identified.

CNPA

One moderate rated finding was noted related to:

- The lack of appraisal process for board members at the Authority.

Executive summary: Key findings and recommendations (continued)

We summarise areas of good practice.

Areas of good practice

LLTNPA

- ✓ The guidance on Code of Conduct and On Board has been well reflected within processes and procedures and there is a good level of understanding demonstrated by board members, based on our interviews.
- ✓ The access to information in terms of format and detail appears to be appropriate for the needs of board members, with information being primarily targeted at the strategic level.
- ✓ The induction process is tailored, based on the background and experience of each board member, and includes relevant meetings with senior board members and management.
- ✓ Recent board appointments were offered the use of a peer mentor to accelerate the effective induction to the Authority.
- ✓ LLTNPA make use of a microsite containing key information including board bulletins.

CNPA

- ✓ The access to information in terms of format and detail appears to be appropriate for the needs of board members, with information being primarily targeted at the strategic level.
- ✓ Information available during induction appropriately considers the On Board guide, with good engagement with senior staff and board members at the Authority.
- ✓ Board members have participated in formal training on Code of Conduct, with training sessions run by a recognised independent trainer in October 2014 and November 2015.
- ✓ Board governance matters within the “Developing Leadership” stream of our Organisational Development Strategy and associated change programmes have been embedded over the last two years.

Summary of findings – LLTNPA

The summary of findings summarises the risks identified, the processes to mitigate the risks and our findings.

Identified potential risk	LLTNPA processes	KPMG finding
Current governance arrangements: Standing orders. committee terms of reference and Code of Conduct for members		
Risk of lack of clarity in the roles and responsibilities of committees and members resulting in either: ■ overlap of work and resulting inefficiency; or ■ key areas not being appropriately considered.	LLTNPA is in the process of revising its standing orders to improve the consistency of format of the documents. We reviewed the standing orders, Code of Conduct and terms of reference and found them to cover key areas in each case. We also considered whether there is overlap of responsibilities of differing committees and found the allocation of responsibilities to be appropriate. During this review we noted some minor improvement opportunities to improve consistency, which we do not consider of a nature to warrant a specific finding. We shared these points with management separately and they acknowledged they will be considered during the update process.	**Satisfactory**
Induction processes, learning and development		
Without a clear induction and ongoing development process adequately considering relevant guidance and the operations of the Authority, new board members may be insufficiently prepared to conduct business in line with the requirements of their appointment.	LLTNPA has implemented the On Board guide and has incorporated this into the induction program for new board members. New appointments met with the Convenor and Chief Executive soon after appointment to discuss the role which will be undertaken. To ensure that existing board members also benefited from the revised guidance, a session was held in December 2015 to brief existing members, with strong attendance from board members. For the minority of members who could not attend, alternative arrangements were put in place to communicate key messages. We discussed the induction process with recent board appointees and management to understand how this is recorded and to assess the benefit to the individuals and the Authority. We noted that the induction program was well structured but had little formal acknowledgement of the specific knowledge and experience of the individuals, although in practice there was some tailoring of the approach. Ongoing training within the Authority is more specifically tailored to the individual needs of board members based on the roles and committee appointments that they undertake.	It was noted that tailoring of the induction process based on the background and experience of new appointments is not formally recorded. Whilst we acknowledge the need to ensure consistency of understanding of the operations of the Authority it is important to recognise the previous knowledge of individuals when inducting them to the Authority. **Recommendation one**

Summary of findings – LLTNPA (continued)

Identified potential risk	LLTNPA Processes	KPMG finding
Performance appraisals		
There are limited or no appraisal of board members to assess effective performance of roles. Appraisals which are undertaken lack structure and result in key development opportunities being neglected.	Due to the challenge posed in managing performance created by the three appointment routes the Authority has taken an approach of focusing on improving performance and the development needs of the board members. The convenor has one to one meetings with each of the board members to discuss development needs based on individual self assessment. Board members have found this approach to be appropriate and useful to identify areas of personal development, to enable them to perform different roles on the committees within the Authority.	**Satisfactory**
Quality and availability of information		
Information provided to board members is: ■ unavailable; ■ inaccessible; or ■ of inappropriate detail for the board to operate effectively.	The Authority faces particular challenges in relation to the accessibility of information to board members, due to the quality of broadband within the National Park. This has been recognised by management and a blended approach to disbursing information has been taken. The Authority has a microsite available to board members, which includes standing orders, committee terms of reference and other relevant news and information. There were some minor concerns noted from discussions as to the speed of connection to the microsite, but other means of communication including emails, phone calls and hard copy distribution were used as required, with the most urgent messages communicated by phone then followed up by other means. We reviewed a sample of board papers and minutes of board and committee meetings and consider the detail appropriate to enable the board to effectively carry out its duties. Based on our review and discussions with board members, we found there to be appropriate strategic focus within information provided to board members.	**Satisfactory**

Summary of findings – CNPA

The summary of findings summarises the risks identified, the processes to mitigate the risks and our findings.

Identified potential risk	CNPA processes	KPMG finding
Risk of lack of clarity in the roles and responsibilities of committees and members resulting in either: ■ overlap of work and resulting inefficiency; or ■ key areas not being appropriately considered.	We reviewed the management statement, Code of Conduct and terms of reference and found them to cover key areas in each case. We also considered whether there is overlap of responsibilities of differing committees and found the allocation of responsibilities to be appropriate. During this review we noted some minor improvement opportunities to improve consistency, which we do not consider of a nature to warrant a specific finding. We shared these points with management separately and they acknowledged they will be considered during the update process.	**Satisfactory**
Induction processes, learning and development		
Without a clear induction and ongoing development process adequately considering relevant guidance and the operations of the Authority, new board members may be insufficiently prepared to conduct business in line with the requirements of their appointment.	The induction provided to new members is comprehensive, including meetings with the Chief Executive, Convenor and senior management. The induction checklist captures key training and reading to be undertaken and is well aligned to On Board guide. Based on review of a sample of new board member induction records and corroborating discussions we identified that a checklist which is consistent with the On Board guide is completed for each new appointment. However, it wasnoted that there is limited tailoring of the induction process based on the background and experience of new appointments.	Whilst we acknowledge the need to ensure consistency of understanding of the operations of the Authority, it is important to consider the previous knowledge of individuals when inducting them into the Authority. There is risk in taking a ‘one size fits all’ approach that excessive amounts of time of board members is spent on induction, rather than acting in their role limiting the benefit to the Authority. **Recommendation one**

Summary of findings – CNPA (continued)

Identified potential risk	CNPA Processes	KPMG finding
Performance appraisals		
There are limited or no appraisal of board members to assess effective performance of roles. Appraisals which are undertaken lack structure and result in key development opportunities being neglected.	Discussions with board members indicates that there is no process of appraisal for board members.	The new convenor stated that it was his intention to implement appraisals focusing on future development needs of board members, but this has not yet been implemented **Recommendation two**
Quality and availability of information		
Information provided to board members is: ■ unavailable; ■ inaccessible; or ■ of inappropriate detail for the board to operate effectively.	We reviewed a sample of board papers and minutes of board and committee meetings and consider the detail appropriate to enable the board to effectively carry out its duties. Based on our review and discussions with board members, we found there to be appropriate strategic focus within information provided to board members and information is available in a way that is appropriate to meet their needs.	**Satisfactory**

Action plan - LLTNPA

The action plan summarises specific recommendations, together with related risks and management's responses.

Finding(s) and risk	Recommendation(s)	Agreed management actions
1 Induction process		**Low**
From review of a sample of new board member induction records and corroborating discussions, we identified that a checklist which is consistent with the On Board guide is completed for each new appointment. However, it was noted that there is limited tailoring of the induction process based on the background and experience of new appointments. Whilst we acknowledge the need ensure consistency of understanding of the operations of the Authority it is important to consider the previous knowledge of individuals when inducting them into the Authority. There is a risk in taking a one size fits all approach that excessive amounts of time of board members is spent on induction rather than acting in their role limiting the benefit to the Authority.	When new members are appointed, the Chief Executive and Convenor should agree jointly the induction programme for each new member. This should include consideration of matters including: ▪ previous experience of both the Authority and other public bodies; and ▪ evidence of competence in areas included in the induction program such as demonstration of knowledge, in the case of Ministerial appointments, where the Convenor has been involved in the interview process, prior to appointment. To demonstrate all areas of the induction have been achieved, it will be necessary to capture evidence from previous knowledge and reading of policies or development sessions provided by the Authority.	Prior knowledge and experience will be captured as part of the induction process. Progress and completion will be captured and evidenced as part of the On Board checklist **Responsible officer:** Governance and Legal Manager **Implementation date:** April 2016

Action plan – CNPA

The action plan summarises specific recommendations, together with related risks and management's responses.

Finding(s) and risk	Recommendation(s)	Agreed management actions
1 Induction process		**Low**
The induction pack, background reading and required training sessions are clear and cover key areas aligned to On Board guide. However, the order of the process is not defined to ensure that key training is undertaken as a priority. For example, one board member noted that when they commenced induction that it was six months before they received training on the Code of Conduct. If training does occur in a logical order there is a risk that board members will take the wrong action in relation to their role due to not having received sufficient guidance.	The induction pack and checklist should be reviewed to ensure they are appropriately prioritised. Due to the differing experience of board members, the Chief Executive and Convenor should agree jointly the induction programme for each new appointment. This should include consideration of matters including: ▪ previous experience of both the Authority and other public bodies; and ▪ evidence of competence in areas included in the induction program such as demonstration of knowledge during interviews prior to appointment. To demonstrate all areas of the induction have been achieved, it will be necessary to capture evidence from previous knowledge and reading of policies or development sessions provided by the Authority.	We have implemented with effect from September 2015 an induction checklist and more formal Board induction process that can be tailored to individual's requirements. Where there is a requirement for external training there can be issues with availability of places which may delay training being undertaken. The Authorities have collaborated to run training courses for their members (and staff) together on occasion to help overcome this critical mass issue. Board members always, however, have access to training and support from professional staff. **Responsible officer:** Head of Organisational Development with Corporate Services Director **Implementation date:** Implemented

Action plan – CNPA (continued)

Finding(s) and risk	Recommendation(s)	Agreed management actions
2 Appraisal		**Moderate**
Discussions with board members indicates that there is not a process where appraisal takes place on a regular basis. There is a risk that without regular performance discussions, board members may not have a clear understanding of the expectations of their role.	A regular appraisal process should be implemented to identify areas of further development the skills of board members. Board members should self review their performance to identify: ■ areas for improvement in work being performed; ■ further training required to perform the role effectively; and ■ additional development areas to undertake new committee roles.	The new Convenor, elected with effect from September 2015, has put in place a collective performance self-evaluation with the full Board with actions picked up from those discussions. The Convenor is considering appropriate internal individual review mechanisms. **Responsible officer:** Convenor with Director of Corporate Services and Head of Organisational Development **Implementation date:** Initiated September 2015 and ongoing

Appendices

Appendix one

Objective, scope and approach

Objective

The overall objective of this internal audit is to confirm that the Authorities have sufficient support and coordination between management, Board and other relevant Committees in embedding governance principles. In achieving this, we aim to confirm that processes in place for induction, performance appraisal, training and overall engagement are appropriate for the Authorities' needs, meet best practice guidelines and are operating effectively.

Scope

We will:

- Interview selected Board and other relevant committee members to obtain their views on current governance arrangements, induction processes, learning and development, performance appraisals, and the Board microsite;
- Review Terms of Reference and meeting minutes for Board and relevant committees;
- Review new board member induction processes and confirm that these have been applied effectively in year;
- Review Authorities' Standing Orders and Codes of Conduct for Members; and
- Compare our findings with the On Board Guide for Board Members of Public Bodies in Scotland (April 2015) and the Model Code of Conduct for Members of Devolved Public (February 2014) and in doing so, assess compliance with the key messages within these.

Approach

We will adopt the following approach for the review:

- project planning and scoping;
- conduct interviews with Board and relevant committee members to gain an understanding of processes in place;
- examine documentation as detailed within the scope;
- review the adequacy and effectiveness of established policies;
- consider performance against best practice; and
- agree findings and recommendations with management.

Appendix two

Classification of 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.	■ Potential financial impact of more than £400,000. ■ 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 students 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 audit and compliance 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 audit and compliance 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 between £200,000 to £400,000. ■ Major impact on operations or functions. ■ Serious diminution in brand value and/or market share ■ Probable decrease in the public's confidence in the Authority. ■ Significant decline in service/product delivery, value and/or quality recognised by students 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 between £50,000 to £200,000. ■ Moderate impact on operations or functions. ■ Brand value and/or market share 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 students 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 £50,000. ■ Minor impact on internal business only. ■ Minor potential impact on brand value and market share. ■ Should not decrease the public's confidence in the Authority. ■ Minimal decline in service/product delivery, value and/or quality recognised by students 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.

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