

National Park Authority

Audit Committee Meeting

Agenda Item 11



Draft Annual Report by Audit Committee to Board of Activity in 2014/15

Paper for noting and decision

1. Purpose

- 1.1 The Audit Committee is required to report annually to the full Board on its activities, and on the reports presented to the Committee by the Authority's internal and external auditors.
- 1.2 This Annual Report is presented by Lindsay Morrison on behalf of the Audit Committee to cover the period of its operations from December 2013 to February 2015, to include the completion of the 2013/14 year-end audit and submission of the annual report to Parliament.
- 1.3 The period that this report covers results in it being significantly out of date by the time it is presented to members. It is recommended that in future this report covers the period from August to July and is therefore presented to the September Audit Committee and then the September Board Meeting.
- 1.4 To facilitate this change, this report has been extended to February 2015 (normally this would be November 2014) and the next report will be issued in September 2016 to cover the period March 2015 to July 2016.

2. Consideration

- 2.1 Best practice in Corporate Governance recommends that the Audit Committee reports annually to the Board on its activities and on the reports presented to the Committee by the Authority's internal and external auditors.
- 2.2 This Annual Report is presented on behalf of the Audit Committee to cover the period of its operations from December 2013 to February 2015.
- 2.3 **Overview**
 - 2.3.1 The period of this Annual Report covers consideration of final accounts for 2013/14, together with associated reports from Audit Scotland, the Authority's external auditors.
 - 2.3.2 The Committee has also continued to have oversight of the work of the Authority's internal auditors and consider reports issued by them.

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- 2.3.3 The period covered by this report represents the third year of delivery of internal audit services by KPMG, under a contract let jointly with Cairngorms National Park Authority (CNPA).
- 2.3.4 The Committee met three times over the period covered by this report.
- 2.3.5 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:
- 2.3.6 Risk management** – the Audit Committee has strategic oversight of the organisation's monitoring and management of risk. A refreshed corporate risk register was presented to a Board Business Session in December 2013. The up-to-date Corporate Risk Register is included as Agenda Item 13 on the agenda. The process agreed is that the Executive review the Risk Register on a quarterly basis, with a report being submitted annually to the Audit Committee. In the event of any risk being increased to a "high" status, this would be escalated to the Committee at the earliest opportunity. This was the case in November 2014, with two new "high" risks being reported to the Audit Committee: the impact of a change in CEO and the delivery of the Your Park project. It was agreed that the Audit Committee would review the risk register again in March 2015 in light of these new risks.
- 2.3.7 Governance Statement** – review and approval of this statement, prior to its inclusion in the annual accounts and prior to signature by the Accountable Officer.
- 2.3.8 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 good practice. The internal auditors will also undertake formal follow-up reviews of action taken on previous recommendations.
- 2.3.9 Consideration and agreement of forward internal audit activity plans** – the Committee, in conjunction with the members of the CNPA Audit Committee, agree a forward plan of internal audit activity for each year. The strategic internal audit plan from 2011 to 2014 completed in June 2014.

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Following the extension of the audit services contract with KPMG a forward plan of internal audit activity for 2014/15 and 2015/16 was approved by both NPA audit committees.

2.4 Internal Audit

2.4.1 The Committee agree an annual internal audit work programme presented by the internal auditor.

2.4.2 Over the course of the period of this report, KPMG have presented six management reports to the Committee (the seventh report on Records Management will be a late paper). 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
Carbon Management (February 2014)	-	-	-	4
Planning (February 2014)	-	-	-	2
Regulatory Compliance (February 2014)	-	-	-	-
Payroll and Pensions (November 2014)	-	-	1	4
Project Management (December 2014)	-	1	1	5
Fixed Asset Register (January 2015)	-	-	-	3
Records Management (February 2015) LATE PAPER	-	-	-	TBC
Total	0	1	2	18

Key - KPMG definition of categorisation of recommendations:

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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”.

High: “issue represents a control weakness which could have or is having **major adverse effect** on the ability to achieve process objectives”.

Moderate: “issue represents a control weakness which could have or is having **significant adverse effect** on the ability to achieve process objectives”.

Low: “Issue represents a minor control weakness, with **minimal but reportable impact** on the ability to achieve process objectives”.

- 2.4.3 The Committee welcomes the fact that no critical priority recommendations have been raised by internal audit over the course of the 15 months covered by this report. The Committee is satisfied that the response to the one high recommendation received was proactively managed and the risk mitigated promptly by the Executive and officers.
- 2.4.4 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.
- 2.4.5 The Committee welcomes the relatively low 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.
- 2.4.6 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.
- 2.4.7 All scheduled internal audit work during the period was undertaken.

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2.4.8 The Committee has considered the Internal Auditors' Annual Report for 2013/14. 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."

2.5 External Audit

2.5.1 The Authority's accounts for 2013/14 received a clear, unqualified external auditor's report and opinion from Audit Scotland, our external auditors.

2.5.2 The accounts and external auditor's report for 2013/14 were signed on 24th June 2014. This embeds the improvements in financial closure periods implemented in previous years.

2.5.3 The Annual Report and Accounts were submitted to Scottish Government in advance of their deadline of 31st July 2014.

2.5.4 The Audit Committee has considered Audit Scotland's Annual Report on the 2013/14 audit. The report highlights the following key risk areas:

- Financial Planning: The Park Authority currently has financial plans in place for 2014/15. This is in line with the financial plans in the Corporate Plan 2012 to 2017, which are prepared to March 2015, the end of the last Scottish Government Spending Review. However, there are no detailed financial plans prepared beyond this period. Management should continue to plan for the longer term.
- Contingent Asset: The Park Authority will hold contingent assets for three monetary bonds totalling £1.332 million. These are in relation to Scotgold Resource Limited who have submitted a planning application for the development of a gold and silver mine in Cononish Glen. Scotgold Resource Limited are required to reinstate the land at the end of the 10 year period, if not the Park Authority will use the bonds to reinstate the land. Management should ensure the value of the bonds is sufficient to cover the cost of reinstating the land.
- Best Value: in 2011/12 we reported that the Park Authority had not formally considered the Guidance on Best Value in Public Services, issued by the Scottish Government in March 2011. We were advised then that the Park Authority's best value approach would be reviewed and the

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results presented to the Audit Committee before the end of the 2012/13 financial year. In our 2012/13 Annual Audit Report we reported that a detailed self-assessment had not yet been performed and a formal policy on best value not yet developed. Management have agreed to consider the guidance in full and develop a policy for approval by the Audit Committee with a revised target date of 31st March 2015.

3. Conclusion

- 3.1 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.
- 3.2 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.
- 3.3 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.
- 3.4 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.
- 3.5 It is reassuring to see that no critical priority recommendations have been raised by the internal auditors over the course of the year, and that the one high priority recommendation has been promptly addressed by management. 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 welcomes the evidence of generally effective control systems evidenced by the reports.

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- 3.6 The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
- 3.7 The work of the Audit Committee is supplemented by the Delivery Group who report directly to the Board on the delivery of operational and corporate plans as well as financial and statutory reporting. The Audit Committee's remit of considering accuracy of accounting treatments and strength of internal control systems; implementation of effective risk management systems; and, more widely, effective, efficient and economic use of the Authority's resources in delivering our objectives has been achieved by thorough review of the reporting from internal and external audit, regular monitoring of actions arising from internal and external audit reports, review of the strategic risk register and a review of the Authority's response to the Scottish Government guidelines on Best Value in Public Services.

4. Recommendation

- 4.1 Members are asked to note the contents of this report.
- 4.2 Members are asked to discuss the merits of changing the timing of this report (as per 1.3 and 1.4 above) and confirm their preferred timing to officers.

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