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Loch Lomond & The Trossachs National Park Authority

Annual internal audit report

Year ended 31 March 2016

25 May 2016

This report is for:

Information

Chief executive

Audit committee

Jaki Carnegie, director of corporate services

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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 (“the Client”) dated 15 June 2011 and extended as of the letter dated 28 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.

Internal audit plan

Our internal audit plan for 2015-16, as agreed with the audit committee, was developed based on consideration of:

- previous years' internal audit plans, observations and key findings arising from internal audits conducted during 2014-15;
- discussions with members of the senior management team and comments from members of the audit committee;
- consideration of the Authority's risk register, as developed and provided by management;
- requirements for internal audit;
- known 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

Public Sector Internal Audit Standards ("PSIAS") require that the Head of Internal Audit provides the audit committee with an annual internal audit opinion based on the work performed during the financial year. The audit committee should use this and other sources of assurance to make its annual report to the board. In addition, the opinion supports the audit committee and board's consideration of the governance statement included with 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.

Limitations

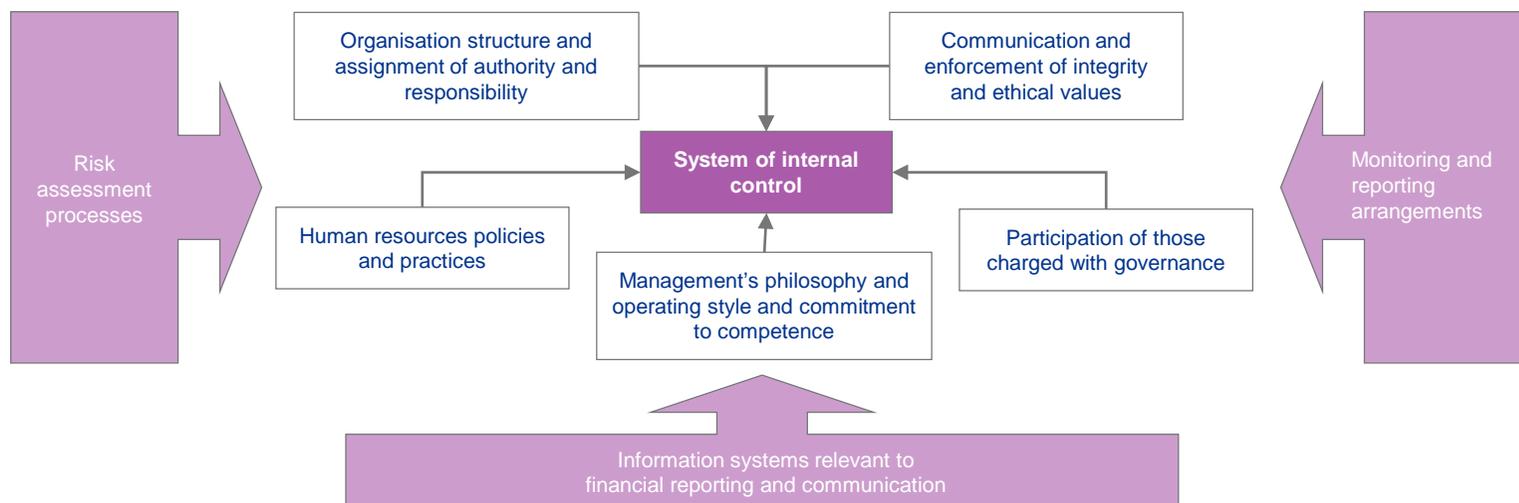
There are inherent limitations as to what can be achieved by internal control and, consequently, limitations in conclusions reached. These limitations include the possibility of incorrect management judgement in decision making, control breakdowns because of human error, control activities being circumvented by the collusion of two or more people, and of management overriding controls. In addition, there is no certainty that internal controls will continue 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 2015-16;
- management’s progress in implementing internal audit recommendations reported prior to 2015-16, and matters arising from our previous reports to Authority, as appropriate; and
- the effects of any significant changes in the Authority’s objectives or systems.

2015-16 Head of Internal Audit Opinion to Loch Lomond and The Trossachs National Park Authority ('the Authority')

Basis of opinion for the period 1 April 2015 to 31 March 2016

Our internal audit service has been performed in accordance with KPMG's internal audit methodology which conforms to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) or International Standard on Assurance Engagements (ISAE) 3000. PSIAS require that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform our work to obtain sufficient, appropriate evidence on which to base our conclusion.

Roles and responsibilities

The Board is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Accountable Officer, on behalf of the Board, setting out:

- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the assurance Framework process; and
- the conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The Assurance Framework should bring together all of the evidence required to support the AGS.

The Head of Internal Audit (HoIA) is required to provide an annual opinion in accordance with Public Sector Internal Audit Standards, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the system of internal control). This is achieved through a risk-based programme of work, agreed with Management and approved by the Audit Committee, which can provide assurance, subject to the inherent limitations described below.

The purpose of our HoIA Opinion is to contribute to the assurances available to the Accountable Officer and the Board which underpin the Board's own assessment of the effectiveness of the system of internal control. This Opinion will in turn assist the Board in the completion of its AGS, and may also be taken into account by other regulators to inform their own conclusions.

The opinion does not imply that the HoIA has covered all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and Management-led Assurance Framework. As such it is one component that the Board takes into account in making its AGS.

Internal audit opinion (continued)

Opinion

Our opinion is set out as Basis for the opinion; Overall opinion and Commentary.

The basis for forming our opinion is as follows:

- an assessment of the design and operation of the underpinning assurance framework and supporting processes; and
- an assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the period. This assessment has taken account of the relative materiality of these areas.

Our overall opinion for the period 1 April 2015 to 31 March 2016 is that:

Significant assurance can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Commentary

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety. Our opinion covers the period 1 April 2015 to 31 March 2016 inclusive, and is based on the six audits that we completed in this period.

The design and operation of the assurance framework and associated processes

Overall our review found that the assurance framework in place is founded on a systematic risk management process and does provide appropriate assurance to the Board.

The assurance framework does reflect the organisation's key objectives and risks and is reviewed on a quarterly basis by the Audit Committee.

The range of individual opinions arising from risk-based audit assignments, contained within our risk-based plan that have been reported throughout the year

We issued no reports with critical, high or moderate graded recommendations in respect of our 2015-16 assignments. All recommendations raised were graded as low, according to our framework of ratings at appendix one.

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Summary of internal audit activity in 2015-16

Over the course of our reviews we identified no 'critical' 'high' or 'moderate' graded recommendation.

All recommendations were 'low'.

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 provided an action plan highlighting the action to be taken, the individual responsible for implementing the recommendation and the timeframe for completion.

2015-16 internal audit plan reference	Assignment	Assignment days	Status	Critical	High	Moderate	Low
				Recommendations			
2016.1	Cash generating income streams report	3	Complete	-	-	-	1
2016.2	Post-implementation of records management and project management	3	Complete	n/a*			
2016.4	Workforce management and appraisals	4	Complete	-	-	-	1
2016.5	Complaints handling	4	Complete	-	-	-	1
2016.6	Controls risk self assessment	3	Complete	-	-	-	2
2016.7	Governance and new board members – roles and inductions	4	Complete	-	-	-	1
	Total	21		-	-	-	6

* The review undertaken in this area was a detailed follow up of areas reviewed in 2014-15.

Summary of completed assignments 2015-16

We have summarised the findings of our internal audits undertaken during 2015-16.

We summarise below the findings of internal audits undertaken in line with the agreed 2015-16 internal audit plan.

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Cash generating income streams report	<p>A comprehensive cash handling and banking procedures manual is being prepared by management and is in draft format. This document details the processes and policies in relation to payment methods, cash handling, reconciliation of income, banking and transporting of cash. It also specifies tailored procedures in relation of each site that has an element of cash handling.</p> <p>Strong budgetary controls enable management to identify and monitor variations from budget on a timely basis. Key matters are communicated to the executive team in a timely manner with clear action points for individuals.</p> <p>A charging price document outlines prices for 2015-16. This identifies the charge for each of the available income streams and pricing of products sold. The document contains recommendations to the executive team, including a brief outline of expected changes to pricing in 2016-17.</p>	<p>There is a lack of segregation of duties within the finance team.</p> <p>We identified that the members of the finance team are able to raise invoices and authorise them to be sent to customers, as well as recording the receipt of cash. The individual is responsible for preparing bank reconciliations and therefore has access to the full accounting entries.</p>	<p>We made no further recommendations to make in this area.</p>

Summary of completed assignments 2015-16 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
<p>Workforce management and appraisals</p>	<p>Staff are clearly aware of the strategic goals of the organisation, particularly those found in the Corporate and Annual Operational Plan.</p> <p>The introduction of the “My Monthly One-to-One” form enables performance to be tracked and reviewed throughout the year.</p> <p>The transition to an increased emphasis on self-review has provided an opportunity for staff to gain further value regarding their performance during the year, along with planning for the future.</p>	<p>During the implementation of the new process, there have been ongoing improvements and communications to ensure that this maximises the benefits to both the Authority and employees.</p>	<p>Management should continue to identify areas for improvement and further cascade examples of good practice such as:</p> <ul style="list-style-type: none"> ■ issuing further guidance on how to ensure objectives are SMART; ■ provide examples of appropriate ways in which to capture feedback and evidencing behaviours; and ■ Giving examples of what effective performance looks like at a more job specific level.

Summary of completed assignments 2015-16 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Complaints handling	<p>The Authority has a 100% record in terms of meeting deadlines per the complaints handling policy and SPSO guidelines.</p> <p>The complaints policy is comprehensive and details examples of where a number of different responses may be applicable. The policy clearly defines the channels of escalation of complaints and turnaround times for the handling of each type of complaint.</p> <p>The complaints log contains details on each complaint and accurately records the dates of communications with the customer. This enables effective management oversight of both the volume, nature and resolution status of complaints coming through the organisation.</p> <p>The quarterly delivery group reporting is detailed. Complaints are broken down into category and trend analysis performed relating to complaint volumes. This facilitates management's understanding of the nature behind significant volume fluctuations.</p>	<p>The complaints log lacks detail of the action taken as a result of each complaint received, and there is a lack of documentation of telephone communications with stakeholders and hence limits the usefulness of the log as management information.</p> <p>Improvements on the above is necessary to demonstrate a robust control environment and to be able to supply SPSO any evidence required for a complaint escalated to it.</p> <p>We recommend that the complaints log is updated in order to facilitate entry of information relating to whether an action is required and details of the action.</p> <p>Management should reiterate the importance of this to the Authority staff to ensure that the Authority can demonstrate the robustness of the Complaints Handling control environment. Management could introduce template work papers to minute verbal communications with a complainant.</p>	We made no further recommendations to make in this area.

Summary of completed assignments 2015-16 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
<p>Controls risk self assessment</p>	<p>the Authority uses weekly payment runs effectively to pay invoices promptly and meet the Scottish Government target of 10 day payment of invoices.</p> <p>The management accounts are prepared for the year end with relevant back up reconciliation. These are reviewed by the Executive team.</p>	<p>We identified two areas where steps could be taken to improve the design and implementation of controls to mitigate the identified risks:</p> <ul style="list-style-type: none"> ■ The need for further detail related to IT hardware within the fixed asset listing. ■ The implementation of an authorisation process related to changes of employees details. <p>Due to the limited breakdown in the fixed asset register, specifically within the IT Hardware category, there is limited visibility of the assets that the Authority holds. There is a risk that there may be assets which are held onsite but not utilised by the Authority, although are still depreciated within the general IT hardware fixed asset category.</p>	<p>A system should be put in place to improve fixed asset visibility to make the most of the resources available to the Authority. This system should aim to also capture more detail of the assets in question to maximise the use of these assets and improve the functionality of the Authority.</p> <p>There should be a consideration of applying an authorisation processes relating to an employee changing his/her details involving a co-signee or manager to approve the changes.</p>

Summary of completed assignments 2015-16 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
<p>Governance and new board members – roles and inductions</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>Recent board appointments were offered the use of a peer mentor to accelerate the effective induction to the Authority.</p> <p>the Authority makes use of a microsite containing key information including board bulletins.</p>	<p>It was noted that tailoring of the induction process based on the background and experience of new appointments was not formally recorded.</p>	<p>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:</p> <ul style="list-style-type: none"> ■ 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. <p>To demonstrate all areas of the induction have been achieved, it is necessary to capture evidence from previous knowledge and reading of policies or development sessions provided by the Authority.</p>

We recognise the importance of implementing a performance framework that allows stakeholders to measure the contribution from internal audit. To monitor and demonstrate this, key performance indicators have been identified and are used to provide feedback, which is important to us and of value to you.

2015-16 performance summary

The table below summarises our performance against identified key performance indicators in 2015-16.

Key Performance Indicator	Target	Actual
Provision of service and planning		
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%	100%
The Head of Internal Audit or Audit Senior Manager will attend all Audit Committee meetings.	100%	100%
Approach		
Audit terms of references will be agreed with management at least 15 working days before planned commencement of audit.	100%	67%
We will hold an opening meeting with relevant staff and management either prior to, or on the first day of fieldwork.	100%	100%
We will agree with management the systems and control objectives of each Internal Audit scope prior to the commencement of our work.	100%	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%	100%
Reporting		
Draft reports will be issued within two weeks of exit meeting and final provision of information.	100%	100%
Management responses will be received within two weeks of the draft report being issued.	100%	100%
Final reports will be issued within two weeks of receipt of management responses.	100%	100%
Finalisation of the annual internal audit report by 30 June 2016.	100%	100%

Performance of internal audit (continued)

Compliance with standards

Based upon our ongoing assignment and client review processes, our internal audit service has complied with Public Sector Internal Audit Standards.

Quality control

Our aim is to provide a service that not only meets the Authority's needs but also maintains consistently high standards. This is achieved through the following internal processes:

- Preparation of a detailed audit plan which is agreed by management and the Audit Committee for approval.
- Regular review of progress against the plan to ensure we are delivering the work we have promised. In 2015-16 we completed all audit work as required.
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to KPMG's review protocol.
- The use of qualified, highly trained and experienced staff.
- Monitoring of performance against targets.
- The review of all audit files and reports by Andy Shaw (Director) and Matthew Swann (Senior Manager)
- Reviews of a random sample of files by staff from other offices within the firm to ensure they comply with KPMG's standards of technical excellence and client service.

Staffing

We recognise that the Loch Lomond & The Trossachs National Park Authority wishes to see its internal audit service make a positive contribution and as a consequence, this requires a high level of experienced and qualified staff to bring appropriate levels of expertise. We have detailed below the senior members of the audit team who have delivered our work in 2015-2016:

- Matt Swann – senior manager in our central belt audit practice, specialising in public sector and several years of experience with the Authority; and
- Rishi Sood – assistant manager with considerable internal audit experience and knowledge of the Authority.

Liaison with External Audit

Aspects of our work are reviewed by your external auditor, Audit Scotland, to assess the extent to which they can place reliance on it. We proactively agreed an Audit Protocol with Audit Scotland, setting out the work that we would perform that it could place reliance on. The results of this are reported to you by Audit Scotland.

Appendix

Classification of internal audit 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.	<ul style="list-style-type: none"> ■ Potential financial impact of more than 1% 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. ■ Serious 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. 	<ul style="list-style-type: none"> ■ 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.	<ul style="list-style-type: none"> ■ Potential financial impact of 0.5% to 1% 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. 	<ul style="list-style-type: none"> ■ 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 internal audit 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.	<ul style="list-style-type: none"> ■ Potential financial impact of 0.1% to 0.5% 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. 	<ul style="list-style-type: none"> ■ 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.	<ul style="list-style-type: none"> ■ Potential financial impact of less than 0.1%*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. 	<ul style="list-style-type: none"> ■ 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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