



cutting through complexity

Loch Lomond & The Trossachs National Park Authority

Annual internal audit report

9 June 2014

This report is for:

Audit Committee

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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 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 Loch Lomond & The Trossachs 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;
- 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 head of internal audit 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

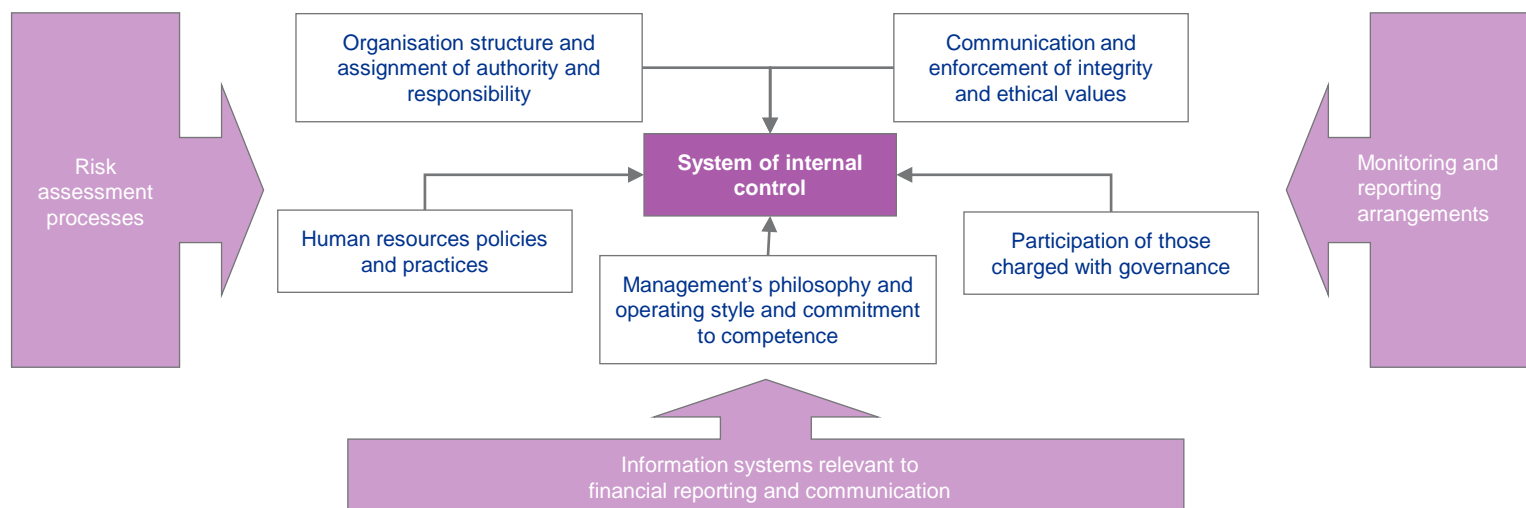
There are inherent limitations as to what can be achieved by internal control and, consequently, limitations in conclusions reached. These limitations include the possibility of incorrect management judgement in decision making, control breakdowns because of human error, control activities being circumvented by the collusion of two or more people and of management overriding controls. In addition, there is no certainty that internal controls will 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 2013-14;
- management's progress in implementing internal audit recommendations reported prior to 2013, as appropriate;
- the effects of any significant changes in the Authority's objectives or systems.

Summary of internal audit activity in 2013-14

In completing the 2013-14 internal audit plan we identified and reported 11 recommendations. There were no 'critical' or 'high' graded recommendations. We identified one graded 'moderate' and 10 graded 'low' priority.

Audit committee training was completed for the Authority during the 2013-14 internal audit period.

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. Audit committee training was also completed for the Authority during the 2013-14 internal audit period.

Assignment	Assignment days	Status	Critical	High	Moderate	Low
			Recommendations			
Financial management, planning, and efficiencies	3	Complete	-	-	-	1
Planning processes and systems	4	Complete	-	-	-	2
Carbon management/internal sustainability	4	Complete	-	-	-	4
Controls risk self-assessment	3	Complete	-	-	1	3
Regulatory compliance	3.5	Complete	-	-	-	-
Total	17.5		-	-	1	10

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	<p>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. We found that the Authority has a well developed formal financial planning process for budget setting and financial planning. This includes a 'budget and financial monitoring process policy' which sets out the responsibilities and timetable for the annual budget setting process. This process is led by senior management within the finance team and includes input from department and project managers where relevant. 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 the annual budget.</p> <p>We identified that the Authority demonstrates involvement of senior operational management in budget setting and monitoring, financial plans are clearly linked to strategic objectives, and processes for monitoring and reporting efficiency savings are well established. It was recommended that management report to the board on the most recent financial information, making sure that it takes into account variances from budget during the year.</p>
Planning processes and systems	<p>The Authority has the power to decide all planning and related applications within relevant geographical boundaries. There are detailed arrangements at the Authority to consider planning applications against the national park plans, local plans, and other guidance with decisions reserved for the planning committee. The Authority now provides a pre-planning application consultation service which facilitates best practice in the planning process and complies with the Scottish Government's strategic direction on planning best practice. The Authority considers that this is an effective and efficient use of staff resources and assists in building relationships with local stakeholders, although it is not possible to quantify staff resource savings.</p> <p>Based on the scope of our review and the testing undertaken, the Authority's planning and related application process appears to be designed and operating effectively. Recommendations were raised emphasising that management could improve documentation around change controls for the UNiform planning system and review policies around project management and controls over reports submitted to the Scottish Government.</p>
Carbon management/internal sustainability	<p>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 examined the Authority's processes for monitoring and reporting of sustainability initiatives.</p> <p>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. Low level recommendations were provided for areas including the sharing of good practice, the increasing of staff engagement as a whole, reassessment of baseline measurements and the setting/monitoring of targets against business plan measures.</p>

Summary of completed assignments 2013-14 (continued)

Assignment	Summary of findings
Control risk self-assessment	<p>The control risk self-assessment (“CRSA”) process 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.</p> <p>The Authority achieved an overall score of 95%, which is in-line with similar organisations (93%). Four recommendations were made, one of which was graded moderate risk, the rest graded low risk. The moderate recommendation emphasised the importance of raising purchase orders at the start of the purchasing process, rather than waiting until after the related invoice was received. The low risk recommendations focused on evidencing journal authorisation, ensuring cheque payment authorisation duties are segregated and we suggested that staff expenses are physically signed prior to payment.</p>
Regulatory compliance	<p>There are a number of regulatory requirements with which the Authority must comply. These 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 regulations is held by relevant areas in the Authority, with ultimate responsibility being held by the executive.</p> <p>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.</p> <p>Based on the scope of our review and the testing undertaken, we identified a number of areas of good practice and did not raise any recommendations.</p>

Appendices

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%	80%
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%	80%
Ready access to core team members at all times	100%	60%
Attendance at meetings of the audit committee	100%	100%
Draft annual internal audit report to be available by 30 April 2014	100%	0% - 6 May 2014
Finalisation of the annual internal audit report by 30 June 2014	100%	100%

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.	<ul style="list-style-type: none"> ■ 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. 	<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 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. 	<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.

Appendix two

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.	<ul style="list-style-type: none"> ■ 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. 	<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 0.5% 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. 	<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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