



cutting through complexity

Loch Lomond & The Trossachs National Park Authority

Annual internal audit report

Year ended 31 March 2015

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 2014-15, 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 2013-14;
- 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 ("HoIA") 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 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

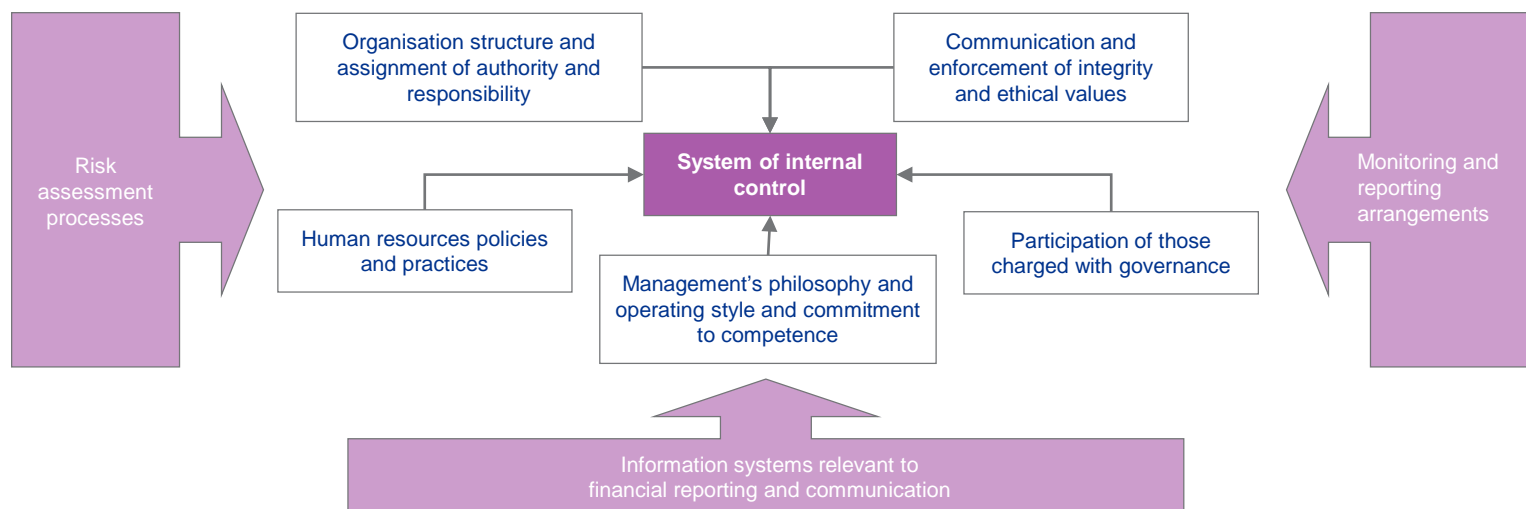
There are inherent limitations as to what can be achieved by internal control and, consequently, limitations in conclusions reached. These limitations include the possibility of incorrect management judgement in decision making, control breakdowns because of human error, control activities being circumvented 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 2014-15;
- management's progress in implementing internal audit recommendations reported prior to 2014-15, 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.

Summary of internal audit activity in 2014-15

Over the course of our reviews we identified no 'critical' and one 'high' graded recommendation.

All other recommendations were graded either 'moderate' or '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.

2014-15 internal audit plan reference	Assignment	Assignment days	Status	Critical	High	Moderate	Low
				Recommendations			
2015.01	Records Management	3	Complete	-	-	-	1
2015.03	Project management	6	Complete	-	1	1	5
2015.04	Payroll and pensions administration	5	Complete	-	-	1	4
2015.05	Fixed asset register	4	Complete	-	-	-	3
	Total	16		-	1	2	13

We have summarised the findings of our internal audits undertaken during 2014-15.

We summarise below the findings of internal audits undertaken in line with the agreed 2014-15 internal audit plan.

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Records management	<p>The records management process was well implemented and we identified a number of areas of good practice.</p> <p>The Authority has a dedicated working group, with members from across the different business units tasked with ensuring the structure of the new records management system met their business needs.</p> <p>There was good evidence to support all aspects of the records management plan including updated policies and procedures.</p> <p>Risk management was considered from the early stages of the project and arrangements were made for appropriate back up controls were in place and were taken before migration to the new shared drive.</p> <p>Clear guidance and training was provided for setting-up the file structure and naming convention for all documents saved on the shared drive.</p> <p>Restricting ability of folder creation maximises compliance with document structure and reduces inefficient use of storage.</p>	<p>We reported one 'low' risk graded finding, related to the records management project moving to the post implementation phase. Management should focus in the next phase on: updating induction policies to include guidance on the new records management system; establishment of a formal process to ensure file structure compliance checks are performed; and named individuals should be nominated with a role of checking that the retention policy is followed.</p>	<p>We identified areas where value could be added and good practice achieved by the Authority, through seeking formal feedback from staff on the new system, the records management plan and underlying policies and procedures to help identify if there are further areas for improvement and efficiency.</p>

Summary of completed assignments 2014-15 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Project management	<p>The Authority introduced a new project management lifecycle toolkit which provides reference to all stages of the project management lifecycle and reference to the relevant documents and templates required to be completed at each stage.</p> <p>In addition to lessons learned workshops performed at the end of a project, they are also conducted at the end of key phases. This facilitates issues to be identified and best practice to be shared on an ongoing basis.</p> <p>There is a clear link between the projects reviewed and the National Park Partnership Plan ('NPPP') objectives.</p> <p>Equality Impact Assessment (EqIA) had been carried out for all projects and in all cases reviewed initial assessments were published online.</p>	<p>We noted one 'high' graded recommendation in respect of the absence of a completed and signed project initiation document prior to the commencement of the project.</p> <p>We also reported one 'moderate' graded recommendation in respect of the introduction of documented procedures to assess the size and risk of projects to ensure all projects are subject to project management controls</p> <p>We identified five 'low' graded recommendations that the project management process could be improved through:</p> <ul style="list-style-type: none"> ■ reporting capital and revenue budget from the project initiation stage; ■ where possible relevant statutory and legal approvals and assessments are in place prior to project start date; ■ changes are documented in the change control log; ■ risk register is evidenced as reviewed and updated; and ■ improved dissemination of good practice and areas for improvement. 	<p>The areas for improvement were intended to enable more efficient project management; in particular to help ensure expected efficiencies are realised on future projects.</p> <p>Ensuring there is a completed and approved project initiation document could lead to efficiencies within the project management lifecycle through better understanding of all aspects of the project from initiation.</p> <p>In addition the introduction of project sizing guidance would allow the tailoring of project management controls to suit the size of the project and risk to the Authority. This would allow for the introduction of a 'lite' project management process which would give the project management team oversight of these projects and make overall process more efficient.</p>

Summary of completed assignments 2014-15 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
<p>Payroll and pensions administration</p>	<p>We noted the operation of segregation of duties including review procedures throughout the payroll process.</p> <p>Guidance on the completion of travel and subsistence and overtime claim forms and policies for pay and allowances and sickness absence are available on the staff intranet.</p>	<p>We identified one 'moderate' graded recommendation relating to the formal authorisation of amendments before they are made to the payroll system.</p> <p>There were four 'low' graded recommendations:</p> <ul style="list-style-type: none"> ■ ensuring Board member expenses forms are appropriately signed before the claim is processed; ■ to reduce the risk of fraud payroll should have an up to date and complete authorised signatory list; ■ to enhance the process exception reports should be produced and reviewed on a monthly basis; and ■ additional members of the HR department should be briefed/trained on pensions auto enrolment requirements and processes so they can carry out relevant processes, if necessary. 	<p>The focus of this review included efficiency, enhancement and changes in the payroll regime, including the achievement of value for money from the payroll and pension processes.</p> <p>Overall amendments to payroll standing data are made on a timely basis but the process could be improved through the introduction of formal authorisation, by the line manager, for all amendments before they are made on the payroll system.</p>

Summary of completed assignments 2014-15 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Fixed asset register	<p>Our review found that management had put considerable effort into allocating the revaluation reserve balance to specific assets, rather than adopting a more holistic approach.</p> <p>Management plans to conduct impairment reviews for assets when they are brought on balance sheet and conduct an annual desktop review for all in-use assets rather than waiting until the next planned revaluation before impairments are considered.</p>	<p>We identified three 'low' graded recommendations:</p> <ul style="list-style-type: none"> ■ ensuring the fixed asset policy is updated to reflect current practices; ■ enhancement of management reporting to include capital project expenditure against budget as part of the management accounts; and ■ updating the fixed asset register to reflect the recognition and initial measurement at nil net book value and subsequent upward revaluation. 	<p>The focus of the review included efficiency, enhancement and changes in the fixed asset register processes including the greater achievement of good practice from the fixed asset register processes. The findings noted below identify areas where greater efficiencies could potentially be achieved:</p> <ul style="list-style-type: none"> ■ the fixed asset policy could be revised, to ensure it is fully in line with current practices at the authority. ■ the use of the fixed asset software could be reintroduced to record the fixed assets, to improve the quality and robustness of the information and provide a clearer audit trail. ■ there could be more frequent management reporting of capital expenditure with qualitative information.

Summary of completed assignments 2014-15 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Follow up	<p>Progress was made in addressing previously identified control weaknesses and performance improvement opportunities.</p> <p>Management reported all of the recommendations made in 2014-15 as 'complete'. Seven recommendations were classified as 'not yet due'.</p> <p>Management reported 73% of recommendations made in previous years as 'complete'.</p>	<p>Continued focus on outstanding recommendations will be required to ensure their timely completion.</p> <p>Three recommendations raised prior to 2014-15 are 'overdue', one 'moderate' graded and one 'low graded' recommendation relating to community engagement and stakeholder satisfaction, and one 'low' graded recommendation relating to financial management, planning and efficiencies.</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.

2014-15 performance summary

The table below summarises our performance against identified key performance indicators in 2014-15. A detailed timeline is presented in appendix two.

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%
We will submit our Internal Audit Plan to the Audit Committee in order to enable agreement prior to August 2014.	100%	100%
The Head of Internal Audit or Audit Manager will attend all Audit Committee meetings.	100%	100%
Approach		
Audit terms of references will be agreed with management at least 10 working days before planned commencement of audit.	100%	25%
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%
Progress reports will be provided at each Audit Committee meeting.	100%	100%
Finalisation of the annual internal audit report by 30 June 2015.	100%	100%

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 2014-15 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.

2014-15 Head of Internal Audit Opinion to Loch Lomond and the Trossachs National Park Authority ('the Authority')

Basis of opinion for the period 1 April 2014 to 31 March 2015

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 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.

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;
- 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; and

Our overall opinion for the period 1 April 2014 to 31 March 2015 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 2014 to 31 March 2015 inclusive, and is based on the four 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 graded recommendations and one report with a high graded recommendation in respect of our 2014-15 assignments, from the Project Management review. The high risk recommendation related is that there was an absence of a completed and signed project initiation document prior to the commencement of a project. This recommendation was implemented by the Authority prior to 31 March 2015.

This does not prevent us from issuing significant with minor improvements assurance as the organisation is implementing the recommendations raised as a result of our work to address the issues identified, and actions are expected to be in place by 31 March 2015.

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Appendix

Appendix two

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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