

National Park Authority

Audit Committee Meeting

Agenda Item 10



Draft Annual Report by Audit Committee to Board of Activity in 2015/16

Paper for information

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 the Chair, Lindsay Morrison, on behalf of the Audit Committee to cover the period of its operations from March 2015 to July 2016, to include the completion of the 2014/15 and 2015/16 year-end audits and submission of the annual reports to Parliament.
- 1.3 Members approved an officers' recommendation in March 2015 that the timing of this report was changed. In future this report will cover the period from August to July and relate to the most recent financial year, being presented to the September Audit Committee and the following Board Meeting. To facilitate this change, the last report was extended to February 2015 (normally this would have been November 2014) and the current report covers the period March 2015 to July 2016.

2. Recommendation

- 2.1 Members are asked to note the contents of this report.

3. Consideration

- 3.1 In line with good practice 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.
- 3.2 This Annual Report is presented on behalf of the Audit Committee to cover the period of its operations from March 2015 to July 2016.

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3.3 Overview

- 3.3.1 The period of this Annual Report covers consideration of final accounts for 2014/15 and 2015/16, together with associated reports from Audit Scotland, the Authority's external auditors for the period.
- 3.3.2 The Committee has continued to have oversight of the work of the Authority's internal auditors and consider reports issued by them.
- 3.3.3 The period covered by this report represents the fourth and fifth years of delivery of internal audit services by KPMG, under a contract let jointly with Cairngorms National Park Authority (CNPA).
- 3.3.4 The Committee met six times over the period covered by this report.
- 3.3.5 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:
- 3.3.6 Risk management** – the Audit Committee has strategic oversight of the organisation's monitoring and management of risk. The Audit Committee noted the progress on the 2014/15 risk register in March 2015 and recommended the 2015/16 risk register for approval and this was approved by the Board in June 2015. Work has commenced on updating the risk register for 2016/17, a Board level corporate risk register workshop facilitated by an external risk expert was held on 13th June 2016 to ensure Board input recognised. A fully refreshed Corporate Risk Register will be required following the publication of the 2017-2022 National Park Partnership Plan and Corporate Plan.

The Executive continues to review the risk register on a regular basis and escalates any risk which has changed to a 'high' status to the Audit Committee at the earliest opportunity.

- 3.3.7 Governance Statement** – reviewed and approved the Governance Statement for 2014/15 and 2015/16, prior to its inclusion in the annual accounts and prior to signature by the Accountable Officer.

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3.3.8 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. We are pleased to advise that the outstanding actions have been reduced significantly and closure remains a key priority.

3.3.9 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. 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 Park Authorities' audit committees.

3.4 Internal Audit

3.4.1 The Committee reviewed and agreed an annual internal audit work programme to be completed by the internal auditor.

3.4.2 Over the course of the period of this report, KPMG have presented six management reports to the Committee. 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 (below) presents a summary of the internal audit findings over the period of this report.

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Table One: Summary of Internal Audit Findings

Internal Audit Study	Number of Recommendations			
	Critical	High	Moderate	Low
Cash generating income streams	-	-	-	1
Post-implementation review of records management and project management	-	-	-	-
Workforce management and appraisals	-	-	-	1
Complaints handling	-	-	-	1
Controls risk self-assessment	-	-	-	2
Governance and new board members – roles and inductions	-	-	-	1
Total	-	-	-	6

Key - KPMG definition of categorisation of recommendations:

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”.

- 3.4.3 The Committee welcomes the fact that only low priority recommendations have been raised by internal audit over the course of the period covered by this report.

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- 3.4.4 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.
- 3.4.5 The Committee welcomes the 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.
- 3.4.6 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.
- 3.4.7 All scheduled internal audit work during the period was completed in a timely manner and feedback received complimented the organisation on the level of cooperation and efficiency of the organisation in responding to data requests.
- 3.4.8 The Committee has considered the Internal Auditors' Annual Report for 2014/15 and 2015/16. The internal auditor's annual report for each year concludes that: "Significant assurance can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."
- 3.4.9 The contract with KPMG terminated as of the end of 2015/16 and, after due process and consideration of Scottish Government partnership working, West Dunbartonshire Council has been appointed as the new internal auditor for the Park Authority from 2016 – 2019.

3.5 External Audit

- 3.5.1 The Authority's accounts for 2014/15 and 2015/16 received a clear, unqualified external auditor's report and opinion from Audit Scotland, our external auditors.

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- 3.5.2 The accounts and external auditor's report for 2014/15 were reviewed and recommended for signature on 23rd June 2015 and for 2015/16 on 21st June 2016 in line with agreed deadlines.
- 3.5.3 The Annual Report and Accounts were submitted to Scottish Government in advance of their deadline of 31st July each year.
- 3.5.4 The Audit Committee has considered Audit Scotland's Annual Report on the 2014/15 and 2015/16 audits. The reports highlight the following actions:
- 2015/16 Ownership of Assets: Management are in negotiations with the landowners to rectify an error in the lease of land at Milarrochy Bay Visitor Centre and Balmaha Path. It is recommended that the Park Authority ensure they obtain variations to the lease of land that the assets are built on. Target date 31st March 2017.
 - 2015/16 Workforce Planning: The Park Authority does not currently have an organisation wide workforce plan. It is recommended that the Park Authority develop a workforce plan that is proportionate to its size and nature. Target date 31st December 2017
 - 2014/15 Capitalisation of Leasehold Assets: The Park Authority should derecognise the £19,000 of land held on its Statement of Financial Position in respect of Lubnaig. Completed as part of 2015/16 year end.
 - 2014/15 Milarrochy Bay Visitor Centre: There was uncertainty as to the ownership of the visitor centre and a risk that the Park Authority does not have title to the land on which the visitor centre has been built. Completed prior to the 2015/16 audit highlighting the error in the lease mentioned above as part of the 2015/16 year end.
 - 2014/15 Review of Assets: The Park Authority should review all of its assets and confirm whether it has title to the land and buildings. Completed prior to the 2015/16 audit highlighting the error in the leases mentioned above as part of the 2015/16 year end.
 - 2014/15 Capitalisation of Staff Training Costs: Staff training costs should not be capitalised in future years. Completed as part of 2015/16 year end process.
 - 2014/15 FReM Changes: The Park Authority should review the significant changes to the 2015/16 FReM and revise the Annual Report & Accounts accordingly and management should also complete the NAO Disclosure Checklist as part of their year-end closedown procedures. Completed as part of the 2015/16 year end process.

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- 2014/15 Financial Planning: In 2014/15 the Park Authority overspent its Resource Department Expenditure Limit by £126,000. The Park Authority does not currently have long-term financial plans. There is a risk that the Park Authority will overspend its budget in future years, given that it has continued to over-programme its expenditure in 2015/16. Completed as the risk was managed as part of the 2015/16 budget process and the one year spending review work required by Scottish Government.

3.5.5 Audit Scotland's appointment as the Park Authority's external auditor terminated as of the end of 2015/16 and the new external auditors are Grant Thornton LLP.

4. Conclusion

- 4.1 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.
- 4.2 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.
- 4.3 There has been positive engagement through the period 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.
- 4.4 Both the internal auditors' finding of significant 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.
- 4.5 It is reassuring to see that only a small number of low priority recommendations have been raised by the internal auditors over the course of the period. 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

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from internal audit will be expected, the Committee welcomes the evidence of generally effective control systems evidenced by the reports.

- 4.6 The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.
- 4.7 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 risk register and a review of the Authority's response to the Scottish Government guidelines on Best Value in Public Services.

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