

National Park Authority Board Meeting

Agenda Item 11



Audit Committee Report on 2013 Activity

Paper for noting and action

1. Purpose

- 1.1 The Audit Committee is required to report annually to the full Board on its activities, and on the reports presented to the Committee by the Authority's internal and external auditors.
- 1.2 This Annual Report is presented by Lindsay Morrison on behalf of the Audit Committee to cover the period of its operations from December 2012 to November 2013, to include the completion of the 2012/13 year-end audit and submission of the annual report to Parliament.

2. Consideration

- 2.1 Best practice in Corporate Governance recommends that the Audit Committee reports annually to the Board on its activities and on the reports presented to the Committee by the Authority's internal and external auditors.
- 2.2 This Annual Report is presented on behalf of the Audit Committee to cover the period of its operations from December 2012 to November 2013.
- 2.3 Overview
 - 2.3.1 The period of this Annual Report covers consideration of final accounts for 2012/13, together with associated reports from Audit Scotland, the Authority's external auditors.
 - 2.3.2 The Committee has also continued to have oversight of the work of the Authority's internal auditors and consider reports issued by them.
 - 2.3.3 The period covered by this report represents the second year of delivery of internal audit services by KPMG, under a contract let jointly with Cairngorms National Park Authority (CNPA).
 - 2.3.4 The Committee met four times over the period covered by this report, including an Audit Committee training session delivered by KPMG.
 - 2.3.5 In addition to management reports from the Authority's Internal and External Auditors, considered in further detail below, the Committee considered the following issues during the course of the year:

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- 2.3.6 Risk management – the Audit Committee has strategic oversight of the organisation’s monitoring and management of risk and attended a Risk Management workshop during the period covered by this report. A refreshed corporate risk register was developed and reviewed by the Committee in November 2013, and then presented to a Board Business Session in December 2013. The most recent Strategic Risk Register, incorporating feedback from the Board Business session in December 2013, is included with this report at Appendix 1. The new process agreed is that the Executive would review the Risk Register on a quarterly basis, with a report being submitted annually to the Audit Committee. In the event of any risk being increased to a “high” status, this would be escalated to the Committee at the earliest opportunity. The Audit Committee recommend the approval of the Risk Register by the Board.
- 2.3.7 Governance Statement – review and approval of this statement, prior to its inclusion in the annual accounts and prior to signature by the Accountable Officer.
- 2.3.8 Updates on progress in implementing previous audit recommendations – officers have presented regular progress updates on the implementation of audit recommendations. These officer reports have been highlighted by internal auditors as establishing best practice. The internal auditors will also undertake formal follow-up reviews of action taken on previous recommendations.
- 2.3.9 Consideration and agreement of forward internal audit activity plans – the Committee, in conjunction with the members of the CNPA Audit Committee, agree a forward plan of internal audit activity for each year, within a risk-based three year internal audit programme.

2.4 Internal Audit

- 2.4.1 The Committee agree an annual internal audit work programme presented by the internal auditor.
- 2.4.2 Over the course of the period of this report, KPMG have presented five 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 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
Charging Scheme (Jan 13)	-	-	-	1
Performance Management (Feb 13)	-	-	2	3
Financial Controls Risk Self-Assessment (Feb13 12)	-	-	1	4
Partnership Working (Jun 13)	-	-	-	2
Visitor Experience (Jun 13)	-	-	1	1
Total	0	0	4	11

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”.

- 2.4.3 The Committee welcomes the fact that no critical or high priority recommendations have been raised by internal audit over the course of the 12 months covered by this report.
- 2.4.4 According to the priority definitions, only critical priority recommendations need be brought to the attention of the Audit Committee. In practice, and in line with the Authority’s values of transparency, the Committee is aware of all recommendations made by the internal auditors, through consideration of full management reports following each audit review.
- 2.4.5 The Committee welcomes the relatively low number of recommendations for improvement in systems and controls arising from the various reviews

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conducted, which has continued a trend seen by the Committee in recent years.

2.4.6 The Committee has agreed management responses to all recommendations made and continues to monitor progress made. The internal auditors have also conducted follow-up reports and report back to the Committee on their findings.

2.4.7 All scheduled internal audit work during the period was undertaken.

2.4.8 The Committee has considered the Internal Auditors' Annual Report for 2012/13. The internal auditor's annual report for each year concludes: "that the authority's systems provide a reasonable basis for maintaining control and that the control framework provides reasonable assurance regarding the effective and efficient achievement of strategic objectives."

2.5 External Audit

2.5.1 The Authority's accounts for 2012/13 received a clear, unqualified external auditor's report and opinion from Audit Scotland, our external auditors.

2.5.2 The accounts and external auditor's report for 2012/13 were signed on 25 June 2013. This embeds the improvements in financial closure periods implemented in previous years.

2.5.3 The Annual Report and Accounts were submitted to Scottish Government in advance of their deadline of 31 July 2013.

2.5.4 The Audit Committee has considered Audit Scotland's Annual Report on the 2012/13 audit. The report highlights the following key risk areas:

- Register of Interests: There is no formal register of interests in place for senior staff therefore there is a risk that LLTNPA may not identify any potential conflicts of interest and related party transactions. A draft policy for a register of interests for all staff has been developed and will be implemented in 2014/15. As at 28 February 2014, senior staff members have completed a register of interests form and this is held by the Governance Team. The Audit Committee are content that the risk in this area is well managed.
- Best Value: there is a need to review and, if required, refresh the Authority's self assessment of delivery against Best Value requirements.

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As a result of changes in management and conflicting priorities there has been a delay in formally reviewing the guidance issued by Scottish Government. A formal policy will be developed for approval by the Audit Committee by 30 September 2014.

- Legal Title to the Gateway Centre: LLTNPA does not have a legal title to the Gateway Centre therefore there is a risk that ownership may be challenged. LLTNPA now have a long lease, until 2150, for the Orientation area at the Gateway which includes the Gateway Centre.

3. Conclusion

- 3.1 The Audit Committee considers that it has been successful in progressing the Board's governance and internal control priorities during the period covered by this annual report.
- 3.2 The Committee warmly welcomes the maintenance of success in closing annual accounts and completing the external audit process promptly each year. The Committee would like to take this opportunity in reporting to the Board to register its thanks to all staff involved in this process and to the effective work of the Audit Scotland team led by Asif Haseeb.
- 3.3 There has been an engagement through the year with issues identified by the Authority's internal and external auditors, and also by the Authority's officers. The Committee has received full reports on issues raised; considered recommendations made; and approved responses and actions.
- 3.4 Both the internal auditors' finding of reasonable assurance regarding the effective and efficient achievement of strategic objectives within the Authority, and the external auditors' unqualified audit certificate, provide assurance to the Committee and Board that the Authority's internal control and governance objectives are being met effectively by management.
- 3.5 It is also reassuring to see that no critical or high priority recommendations have been raised by the internal auditors over the course of the year. While it is accepted that there will always be a range of improvements than can be made to services and controls, and as such a number of recommendations for improvement from internal audit will be expected, the Committee welcomes the evidence of generally effective control systems evidenced by the reports.
- 3.6 The Committee will continue to address key, basic issues of internal control and the development of appropriate processes within the Authority.

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3.7 The Committee has also implemented a wider range of review of the period, to encompass consideration of how well the Authority delivers its overall corporate and operational plan objectives. These reviews have fully met the 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.

4. Recommendations

4.1 Members are asked to approve the Risk Register included at Appendix 1.

4.2 Members are asked to note the contents of this report.

Board Sponsor: Lindsay Morrison; Chair of the Audit Committee