

**INTERNAL AUDIT SERVICES**

**REPORT REF No S/037/17:**

**31 MAY 2017**

**LOCH LOMOND & THE TROSSACHS  
NATIONAL PARK AUTHORITY**

**INTERNAL AUDIT ANNUAL REPORT  
2016/17**

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### Personnel associated with the report:

Colin McDougall: Audit & Risk Manager (West Dunbartonshire Council)

## **1. BACKGROUND**

### **Internal audit plan**

The internal audit plan for 2016-17, as approved by the audit committee, was developed based on consideration of:

- The internal audit plans for previous years, observations and key findings arising from internal audits conducted during 2015-16;
- Discussions with members of the senior management team and comments from members of the audit committee;
- Consideration of the Park 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 processes, potential internal audits were identified and prioritised, based on those areas viewed as of greatest benefit by Internal Audit, senior management and the audit committee.

### **Purpose of internal control**

The Public Sector Internal Audit Standards ("PSIAS") require that the Chief Audit Executive (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.

### **Respective responsibilities of management and internal auditors in relation to internal control**

It is the responsibility of the Park Authority's Executive Team to establish an appropriate and sound system of internal financial control and to monitor the continuing effectiveness of that system. It is the responsibility of the Head of Audit to provide an annual overall assessment of the robustness of the internal financial control system.

### **The Authority's framework of governance, risk management and internal control**

The Authority has a responsibility to ensure that its business is conducted in accordance with legislation and proper standards.

The governance framework comprises the systems and processes, culture and values by which the Park Authority is directed and controlled and how it accounts to communities. It enables the Park Authority to monitor the achievement of its strategic priorities and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The main objectives of the Park Authority's internal control systems are to ensure:

- Adherence to management policies and directives in order to achieve the organisation's objectives;
- Economic, efficient, effective and safe use of resources and assets;
- The relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- Compliance with statutory requirements.

The system of internal control is a significant element of the governance framework. Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, management overriding controls or breaches of laws or regulations. Accordingly, the Park Authority is continually seeking to improve the effectiveness of its systems of internal control in order to identify and prioritise the risks that would prevent the achievement of the Park Authority's strategic objectives. 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.

### **The work of internal audit**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The internal audit function for the Park Authority is provided by West Dunbartonshire Council's Internal Audit Section and in accordance with the Public Sector Internal Audit Standards (PSIAS) which have been agreed to be adopted from 1st April 2013 by the relevant public sector Internal Audit Standard setters. PSIAS applies the Institute of Internal Auditors International Standards to the UK Public Sector.

Internal Audit undertakes an annual programme of work from which is prepared reports identifying system weaknesses and / or non-compliance with expected controls. These are brought to the attention of management and the Audit Committee together with appropriate recommendations and agreed action plans. A Summary of Internal Audits performed during 2016/17 is included at Appendix A of this report. All planned work was completed on schedule in accordance with the programme agreed with management.

It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations.

The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. A programme of follow-up on assignment findings and recommendations provides assurance on the complete and timeous implementation of Internal Audit recommendations.

## 2. INTERNAL AUDIT OPINION

### Basis of Opinion

The evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by Internal Audit during the year to 31 March 2017;
- The assessment of risk completed during reviews of the annual audit plan;
- The assurance statements signed by the Executive Team on the operation of the internal financial controls for the services for which they were responsible during the year to 31 March 2017;
- The assurance statement signed by the Chief Executive for the overall Park Authority for the year ended 31 March 2017;
- Reports issued by the Park Authority's External Auditors and other review agencies; and
- Internal Audit's knowledge of the Park Authority's governance, risk management and performance monitoring arrangements.

### Limitation to Resources or Scope of Internal Audit Work

There were sufficient resources available to deliver the programme of audit assignments contained within the 2016/17 Audit Plan and no significant threats emerged to the independence of the internal audit activity such as inappropriate scope or resource limitations.

### Opinion

My overall opinion for the year from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017 is that *Very Effective* arrangements are in place in relation to the Park Authority's systems of governance, risk management and internal control.



Signature:

Title: Audit and Risk Manager  
West Dunbartonshire Council

Date: 31 May 2017

### **3. PERFORMANCE OF INTERNAL AUDIT**

#### **Compliance with standards**

The internal audit function for the Park Authority has been provided in accordance with the Public Sector Internal Audit Standards (PSIAS).

The table included at Appendix 3 summarises our performance during 2016/17 against key performance indicators.

#### **Quality control**

Our aim is to provide a service that not only meets the Park Authority's needs but also maintains consistently high standards. This is achieved as follows:

- 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 2016-17 we completed all audit work as required, including an additional assignment to investigate a hacking attempt on the Park Authority's bank account;
- The use of the appropriate mix of staff from West Dunbartonshire Council's Internal Audit team; and
- Monitoring of performance against targets.

#### **Liaison with External Audit**

Aspects of our work are considered by the Park Authority's external auditor, Grant Thornton.

**Summary of Internal Audits performed during 2016/17**

<b><u>Report Title</u></b>	<b><u>Status</u></b>	<b><u>No. Of Agreed Actions</u></b>			<b><u>Comments</u></b>
		<b><u>High</u></b>	<b><u>Medium</u></b>	<b><u>Low</u></b>	
Attendance Management	Complete	0 (0)	0 (0)	4 (0)	All actions completed.
General ICT Controls	Complete	0 (0)	1 (0)	3 (2)	The two actions outstanding are not yet due to be completed
Disaster Recovery/Business Continuity Controls	Complete	0 (0)	0 (0)	0 (0)	This audit did not require any actions.
Controls Risk Self-Assessment	Complete	0 (0)	1 (1)	6 (5)	The six actions outstanding are not yet due to be completed.
Health & Safety	Complete	0 (0)	1 (0)	4 (1)	The one action outstanding is not yet due to be completed
Employee Licences / Vehicles Checks	Complete	0 (0)	0 (0)	3 (3)	The three actions outstanding are not yet due to be completed.
Hacking Attempt December 2016	Complete	-	-	-	Rather than specific recommendations management were provided with "Controls Observation" information to address
		-----	-----	-----	
<b>TOTAL</b>		<b>0 (0)</b>	<b>3 (1)</b>	<b>20 (11)</b>	
		====	====	=====	

**NB:** Figures in ( ) denote actions which remain outstanding as at 31 May 2017

## Priority Levels

Recommendations have timescales for completion in line with the following priorities. <b>Priority</b>	<b>Expected implementation timescale</b>
High Risk: Material observations requiring immediate action. These require to be added to the risk register of a Service (Council context).	Generally, implementation of recommendations should start immediately and be fully completed within three months of action plan being agreed
Medium risk: Significant observations requiring reasonably urgent action.	Generally, complete implementation of recommendations within six months of action plan being agreed.
Low risk: Minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.	Generally, complete implementation of recommendations within twelve months of action



**Overall Opinion Levels**

Table 1 below shows the various “Overall Opinion levels” which Internal Audit have available to use in order to form an opinion, as included within the Internal Audit Annual Report, on the overall control environment within the Park Authority for the year to 31 March 2017

Table 1: Overall Opinion Levels

<u>Level</u>	<u>Description</u>
Very Effective	Evaluated controls within the specific audit work carried out have identified only a few relatively minor no issues. There is good assurance that risks are being managed and the organisation’s key objectives are being met.
Substantially Effective	Evaluated controls have identified a generally sound system of internal control with a few specific control weaknesses. There is reasonable assurance that risks are being managed and the organisation’s key objectives are being met.
Material Improvements Required	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and the organisation’s key objectives are being met.
Unsatisfactory	Controls evaluated are not adequate, appropriate or effective. Controls evaluated cannot be used to provide reasonable assurance that risks are being managed and the organisation’s key objectives are being met.

**Key Performance Indicators**

<u>Key Performance Indicator</u>	<u>Target</u>	<u>Target</u>
Draft reports issued within 21 days of fieldwork completion	100%	100%
Management responses will be received within 14 days of the draft report being issued	100%	100%
Final reports issued within 14 days of agreement of draft report / action plan	100%	100%
The Audit and Risk Manager or Qualified Auditor will attend all Audit Committee meetings	100%	100%
Audits completed within budgeted days	100%	100%
Level of full compliance with the Public Sector Internal Audit Standards (PSIAS)	100%	100%
The Internal Audit Annual Report will be finalised by 31 <sup>st</sup> May 2017	100%	100%