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CAIRNGORMS NATIONAL PARK AUTHORITY  
Audit Committee Paper 4 Annex 1 22/06/12

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

# Cairngorms National Park Authority

Annual internal audit report

DRAFT 29 May 2012

This report is for:

**Information**

*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 Cairngorms National Park Authority (“the Client”) dated 15 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 2011-12, 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 Cairngorms National Park Authority's ("the Authority's") objectives.

### Assessment of the effectiveness of the system of internal control

This report of our 2011-12 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 2011-12, 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 2011-12, 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;
- 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 2011 to 31 March 2012. The audit committee should use this and other sources of assurance to make its annual report to the board. In addition, we would expect our report to inform the audit committee and board's consideration of the governance statement included with the financial statements. The opinion of the internal auditors 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**

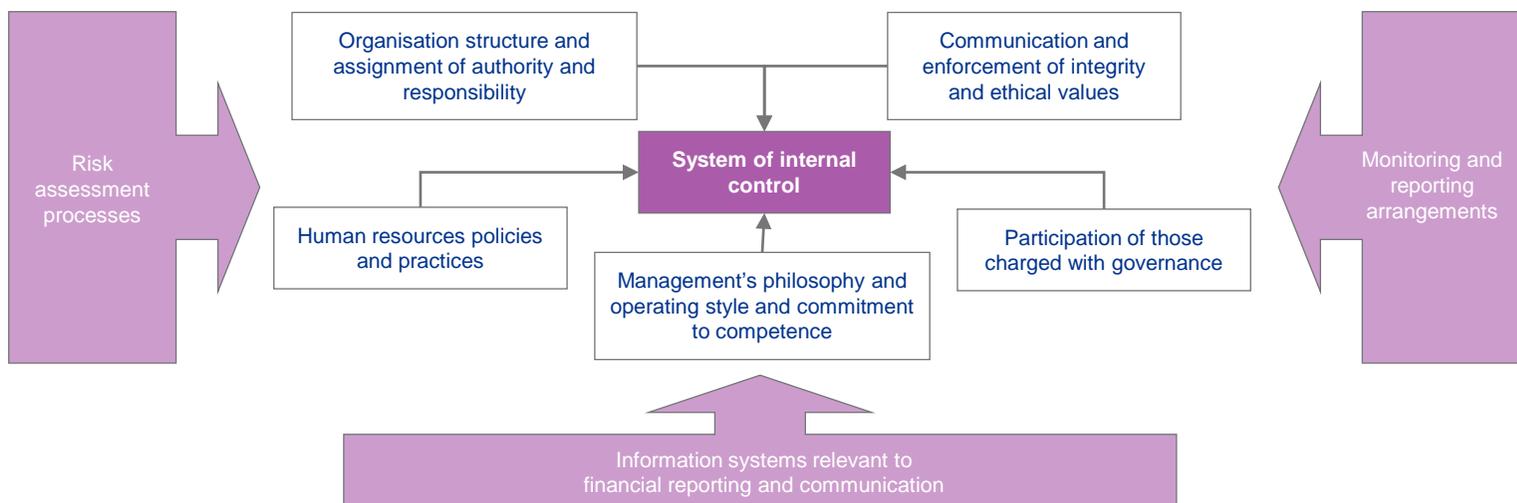
There are inherent limitations as to what can be achieved by internal control and, consequently, limitations in conclusions reached. These limitations include the possibility of incorrect management judgement in decision making, control breakdowns because of human error, control activities being circumvented 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 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 2011-12;
- management's progress in implementing internal audit recommendations reported by the previous auditors, as appropriate; and
- the effects of any significant changes in the Authority's objectives or systems.

## Summary of internal audit activity in 2011-12

In completing the 2011-12 internal audit plan we identified and reported 20 recommendations; 3 graded 'high', 12 graded 'moderate' and 7 graded 'low' priority.

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.

Assignment	Assignment days	Status	Critical	High	Moderate	Low
			Recommendations			
Audit committee effectiveness workshop*	-	-	-	-	-	-
Financial management, planning and efficiencies	6.5	Complete	-	1	3	1
Leader review	-	Complete	-	2	1	-
Commercial income generation	4.5	Complete	-	-	1	-
Community engagement/stakeholder satisfaction	3	Complete	-	-	4	2
Workforce management	3	Complete	-	-	3	2
Controls risk self-assessment	3	Complete	-	-	-	2
<b>Total</b>	<b>20</b>		<b>-</b>	<b>3</b>	<b>12</b>	<b>7</b>

\* We facilitated an audit committee workshop during the year as part of our agreed plan for the year. This was an additional service in our first year as internal auditors and accordingly no assignment days have been allocated to this. Ordinarily this would account for three assignment days, including preparation and planning with management.

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.

These indicators provide information over our achievement of key reporting deadlines, continued compliance with mandatory internal audit standards and adherence to agreed timetables with management for communications, including update meetings and billing.

### 2011-12 performance summary

The table below summarises our performance against identified key performance indicators in 2011-12.

Key performance indicator	Target	Actual
Audit needs assessment, business risks assessment and three year indicative internal audit plan provided for each Authority within one month of appointment.	100%	100%
Detailed annual internal audit plan, including proposed time allocation for each audit, provided no later than one month from appointment.	100%	100%
Draft scopes issued no later than 15 working days before the internal audit start date and final scopes no later than five days before each start date.	100%	80%
Internal audit days completed in line with the agreed timetable	100%	100%
Compliance with mandatory internal audit standards	100%	100%
Draft reports issued within five working days of exit meeting	100%	60%
Final reports issued within five working days of receipt of management responses	100%	100%
Draft annual internal audit reports, covering work performed and including an annual opinion on the status of internal controls within the Authority, by 30 April each year.	100%	100%
Ready access to core team members at all times	100%	100%
Attendance at meetings of the audit committee	100%	100%
Finalisation of the annual internal audit report by 30 June 2012	100%	100%

## Summary of completed assignments 2011-12

We have summarised the findings of our internal audits undertaken during 2011-12.

We summarise below the findings of internal audits undertaken in line with the agreed 2011-12 internal audit plan.

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Financial management, planning and efficiencies	The Authority demonstrates a clear linkage from the National Park Plan to individual corporate plans and through to financial plans ensuring these are all aligned. There is regular monitoring of these by management through a series of KPIs and minutes demonstrate scrutiny and challenge of performance.	Further refinement of financial plans for 2012-13 to 2014-15 is required, prior to finalisation to ensure they are realistic, achievable and in line with Scottish Government requirements (for example efficiency targets).	We identified one minor recommendation for improvement, noting that while the Authority has met efficiency targets to date, further savings are becoming more challenging to identify.
Commercial income generation	-	Management was aware of a number of potential issues around the Cairngorms Outdoor Access Trust and following our review has implemented a new corporate structure.	-
Community engagement / stakeholder satisfaction	The Authority demonstrates a number of areas of best practice in considering stakeholders at all stages of the planning processes. In addition, there is clear commitment to positive engagement from a service level which is fed down to operational levels.	There is some scope for improvement in processes, including building on the marketing and communications plan used by Loch Lomond & The Trossachs National Park Authority.	We have identified opportunities to improve efficiency and effectiveness of existing processes and controls. For example, reporting findings of business barometer and media publications reviews.

## Summary of completed assignments 2011-12 (continued)

Assignment	Areas of good practice	Areas for improvement	Opportunities to improve efficiency
Workforce management	<p>The appraisal process is in accordance with ACAS guidelines and is appropriate to the Authority.</p> <p>The Authority uses staff surveys to solicit feedback from staff on various aspects of their employment.</p>	<p>Staff goals should be linked to strategic goals to ensure consistency and there is scope to improve the competencies used to review performance. We also identified that performance management documentation is not always submitted on a timely basis.</p>	<p>There is scope to improve performance through training, both to employees where a need is 'identified' in their appraisal and generally to appraisal managers.</p>
Controls risk self-assessment	<p>Our review found that controls are generally strong; the Authority achieved an overall score of 96%; against 93% for comparable entities.</p>	<p>There is scope to improve processes for review and authorisation of sales invoices prior to issue.</p>	<p>We noted scope for improvements in the processes around normal cheque usage.</p>
Leader review	<p>Not applicable</p>	<p>We identified one instance of expenditure on a project being incorrect in advance of the proper approval date; management has taken actions to improve processes.</p>	<p>From the files we reviewed we identified some scope to improve documentation and overall audit trails.</p>

# Appendices

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"> <li>• Potential financial impact of more than 1%* of total expenditure.</li> <li>• Detrimental impact on operations or functions.</li> <li>• Sustained, serious loss in brand value.</li> <li>• Going concern of the organisation becomes an issue.</li> <li>• Decrease in the public's confidence in the Authority.</li> <li>• Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty.</li> <li>• Life threatening.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires immediate notification to the Authority's audit committee.</li> <li>• Requires executive management attention.</li> <li>• 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.</li> <li>• Separately reported to chairman of the Authority's audit committee and executive summary of report.</li> </ul>
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"> <li>• Potential financial impact of 0.5% to 1%* of total expenditure.</li> <li>• Major impact on operations or functions.</li> <li>• Serious diminution in brand value.</li> <li>• Probable decrease in the public's confidence in the Authority.</li> <li>• Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty.</li> <li>• Extensive injuries.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires prompt management action.</li> <li>• Requires executive management attention.</li> <li>• 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.</li> <li>• Reported in executive summary of report.</li> </ul>

\* Materiality is quantified on page 12.

## 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"> <li>• Potential financial impact of 0.1% to 0.5%* of total expenditure.</li> <li>• Moderate impact on operations or functions.</li> <li>• Brand value will be affected in the short-term.</li> <li>• Possible decrease in the public's confidence in the Authority.</li> <li>• Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty.</li> <li>• Medical treatment required.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires short-term management action.</li> <li>• Requires general management attention.</li> <li>• 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.</li> <li>• Reported in executive summary of report.</li> </ul>
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"> <li>• Potential financial impact of less than 0.1%* of total expenditure.</li> <li>• Minor impact on internal business only.</li> <li>• Minor potential impact on brand value.</li> <li>• Should not decrease the public's confidence in the Authority.</li> <li>• Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty.</li> <li>• First aid treatment.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires management action within a reasonable time period.</li> <li>• Requires process manager attention.</li> <li>• Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months.</li> <li>• Reported in detailed findings in report.</li> </ul>

\* Materiality is quantified on page 12.

## Classification of findings (continued)

The definitions of the materiality used to classify the impact of our findings are detailed below and are based on the 2010-11 financial statements.

Rating	Definition	Cairngorms National Park Authority	Cairngorms National Park Authority
Critical	Potential financial impact of more than 1% of total expenditure	Greater than £80,000	Greater than £50,000
High	Potential financial impact of 0.5% to 1% of total expenditure	Between £40,000 and £80,000	Between £25,000 and £50,000
Moderate	Potential financial impact of 0.1% to 0.5% of total expenditure	Between £8,000 and £40,000	Between £5,000 and £25,000
Low	Potential financial impact of less than 0.1% of total expenditure	Less than £8,000	Less than £5,000



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