



Cairngorms National Park Authority
Fixed Asset Review
Internal Audit 2004/2005
March 2005
Strictly Private and Confidential

DELLOITTE

Contents

		Page
Section 1	Executive Summary	1
Section 2	Detailed Findings and Recommendations	6
Section 3	Statement of Responsibility	15

Appendices

Appendix A	Audit Scope and Objectives	16
Appendix B	Personnel Interviewed	17

Section 1 - Executive Summary

1.1 Introduction

This review of Fixed Assets is part of our programme of management and operational reviews and is consistent with the audit plan approved by the Audit Committee. A Control Assessment, contained within Appendix A was completed during systems documentation and used as a basis for detailed testing. We have reported by exception only and where no comment is made, the results of our work indicate that the control objective was being met.

1.2 Background

The Cairngorms National Park Authority has now been in existence for almost 2 years. As with many of the staff and systems, the majority of fixed assets currently in existence were inherited from the Cairngorms Trust. With vast expansion planned over the next two years, the number and value of fixed assets will increase steadily requiring more controlled and rigorous procedures to be in place.

At present there are no standard procedures with regard to fixed assets. There is also no monetary threshold for capitalisation. Assets are split into 3 different categories: IT equipment; Leasehold improvements; and Office equipment. Depreciation is charged on a straight line basis over 3, 10 and 5 years respectively, with an additional 5 years applied to Leasehold improvements on review, where necessary.

The fixed asset register is maintained by the accountant on an excel spreadsheet. The spreadsheet details the asset description, cost, acquisition date, asset life, depreciation, net book value and at times the location of the asset. Total assets at 1 April 2004 were £401,603, with £25,206 purchases in the year to date. The budgeted figure for capital expenditure for 2004/05 was £19,000 with actual spend being approximately £25,000.

A second IT register is maintained by the IT officer. This includes every item of IT equipment at both Ballater and Granton along with their specific asset code, serial number, room number, specification and any special features. This is entirely separate from the main register, with the two never having been reconciled. This renders it inadequate for audit purposes, despite its additional detail.

All purchases are supported either by a requisition order form or a business case. When the invoice is received, it is filed in numerical order along with the requisition form. The decision on whether assets are capitalised is made at the procurement stage when finance staff attach a ledger code to the invoice. All invoices are approved by the accountant or Head of Corporate Services and adjustments to coding are made as necessary. Additions are then grouped together and added to the register on a monthly basis by the accountant.

Section 1 - Executive Summary (Continued)

1.2 Background cont.

No disposals have been made to date, nor are there any standard procedures in place for when they do.

1.3 Approach

The overall scope of the audit was to determine the extent and nature of existing controls and to ensure the adequacy and effectiveness of the system for procuring, registering and monitoring fixed assets. This objective was achieved through a combination of discussions with relevant staff and by reviewing all relevant documentation

DELLOITTE

Section 1 - Executive Summary (Continued)

1.4 Overall Assessment

The following table summarises the areas of our review and our overall assessment of the control environment against each objective:

Specific Objective	Overall Assessment	Report Ref.
All fixed asset investments are subject to assessment / appraisal and structured authorisation procedures.	***	2.6, 2.8
A structured fixed asset register or listing is in place.	**	2.2
The fixed asset register provides detail on the physical location of each asset.	*	2.3, 2.5, 2.7
All fixed asset purchases are approved in advance by the appropriate personnel or an appropriate group.	****	
All fixed asset additions are booked to the Fixed Asset Register and appropriate Nominal Leger account in the month acquired.	****	
The depreciable life and asset categorisation is in line with the defined depreciation policy.	***	2.1
An accurate monthly charge for depreciation is calculated each month and reflected in the Nominal Ledger.	*	2.4
All asset disposals are approved in line with the SFIs and SFPs	**	2.1
Gains or losses on sale of assets have been properly calculated and booked to the Nominal Ledger in the month in which they occurred.	**	2.9

Key:

- **** Arrangements accord with good practice and are operating satisfactorily (recommendations are in respect of minor matters).
- *** Adequate arrangements are in place, but certain matters noted as requiring improvement.
- ** Arrangements in place offer scope for improvement.
- * Inadequate level of control and unacceptable level of risk.

Section 1 - Executive Summary (Continued)

1.4 Overall Assessment (continued)

In total, we identified **nine** recommendations as follows:

Description	Priority	Number
Major issues that we consider need to be brought to the attention of Management and the Audit Committee	1	2
Important issues which should be addressed by management in their areas of responsibility	2	7
Minor issues where management may wish to consider our recommendations	3	0
Key		9

1.5 Overall Conclusion

We can conclude that significant weaknesses exist in the current fixed asset system. These weaknesses could become increasingly problematic with future expansion, and accordingly we have classified two as major issues for the Authority.

We have summarised the weaknesses and issues below with further details of our findings and recommendations found within **Section 2** of this report.

Our key findings are as follows:

- Significant weaknesses exist in the fixed assets register resulting in sparse details which consequently obstruct physical verification and the safeguarding of assets. (Ref Recommendation 2.2, 2.3, 2.5, 2.7);
- There are no Standing Financial Procedures in place. (Ref Recommendation 2.2);
- Depreciation calculations for in year additions were found to be incorrect. (Ref Recommendation 2.4);
- With the exception of IT equipment, assets are not given individual asset identification numbers. (Ref Recommendation 2.4);
- There is no capitalisation policy in place, resulting in assets with low value assets regularly being capitalised. (Ref Recommendation 2.6);
- The classification of leases has not been reviewed subsequent to their inheritance from the Trust. (Ref Recommendation 2.8); and
- The disposal of assets is likely to prove problematic due to the insufficient detail in the Register. (Ref Recommendation 2.9)

Section 1 - Executive Summary (Continued)

1.6 Acknowledgements

We would like to take the opportunity to thank all at the Cairngorms National Park Authority who assisted us in this audit. The findings and recommendations in this report were discussed with the Accountant at the conclusion of our fieldwork.

To assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

- **Priority One** - Major issues that we consider need to be brought to the attention of management and the Audit Committee,
- **Priority Two** - Important issues which should be addressed by the management in their areas of responsibility,
- **Priority Three** - Minor issues where management may wish to consider our recommendations.

DR BATES

Section 2 - Detailed Findings and Recommendations

2.1 Standing Financial Procedures

Finding	Recommendation	Rationale	
Discussions with the Accountant identified that there are no current Standing Financial Procedures in place for the fixed assets system at present. This is something that is being worked towards.	SFP's should be completed and circulated as soon as possible covering all areas of financial activity.	Staff may be unaware of exact procedures when carrying out their duties.	
Management Response		Responsibility/ Deadline	Priority
This finding replicates 2.1 of the payroll audit. As discussed prior to the audit, the need to have Financial Regulations in place has already been highlighted by the external auditors and these will be in place prior to the start of the new financial year.		Finance Manager to finalise Financial Regulations (March 2005)	One

Section 2 - Detailed Findings and Recommendations (Continued)

2.2 Fixed Asset Additions

Finding	Recommendation	Rationale	
<p>Additions to the fixed asset register are recorded on a monthly basis and are recorded as a lump sum (e.g. monthly additions for June 04 £9,000). There is no breakdown of the specific assets and as a result individual values, descriptions and locations are not recorded on the register.</p>	<p>All assets should be added to the register individually with the following information recorded:</p> <ul style="list-style-type: none"> • Description of the asset • Date of acquisition • Purchase Cost • Asset Life • Location • Asset Number • Disposal Date • Replacement Cost 	<p>Without such detail, verification of assets, depreciation charges and gains/losses on disposals cannot be verified effectively.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Recommendation agreed, although “replacement cost” would not appear to add any useful information.</p> <p>Should perhaps be noted that adding lump sum additions had been undertaken as a pragmatic solution to dealing with the absence of a capitalisation threshold (see 2.6) and the inclusion as fixed assets of items of equipment which have a useful life of more than one year but which individually would fall below a capitalisation de minimis level (e.g. printers, monitors).</p>		<p>Finance Manager / end June 2005</p>	<p>One</p>

Section 2 - Detailed Findings and Recommendations (Continued)

2.3 Physical Verification of Assets

Finding	Recommendation	Rationale	
<p>From the sample of 10 assets selected for testing from the register, 2 could not be physically verified within the office. This was due to the fact that one asset was old and could not be traced by staff and the other did not have sufficient detail on the register to be located.</p> <p>From the sample of 10 assets selected from the office to be traced to the register, 6 assets could not be located on the register.</p>	<p>The asset register should be reviewed to ensure all assets are recorded and a physical verification carried out to ensure all relevant assets within the office are recorded accordingly.</p>	<p>Without this review, the fixed asset value contained within the balance sheet may be inaccurate / misstated.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Recommendation agreed.</p>		<p>Finance Manager / end June 2005</p>	<p>Two</p>

Section 2 - Detailed Findings and Recommendations (Continued)

2.4 Depreciation Calculations

Finding	Recommendation	Rationale	
<p>From sample of 20 depreciation calculations tested, 1 was identified as being recorded incorrectly in the Finance Manager’s depreciation spreadsheet. The asset had been depreciated for the full year but had been purchased later in the year. Further investigation identified that all assets which had been purchased throughout the current financial year had been incorrectly depreciated. This was due to an error in the formula in the spreadsheet.</p>	<p>All depreciation calculations should be reviewed to ensure they are correct and any incorrect balances corrected.</p>	<p>Depreciation may be incorrectly provided for in the ledger and the net book value of assets may be incorrect in financial statements.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Recommendation agreed.</p> <p>It should be noted, however, that all calculations are checked both internally and by the external auditors as part of each year-end closure and the risk associated with this finding is therefore thought to be minor.</p>		<p>Finance Manager / end June 2005</p>	<p>Two</p>

Section 2 - Detailed Findings and Recommendations (Continued)

2.5 Asset Identification

Finding	Recommendation	Rationale	
With the exception of IT assets, assets are not allocated asset numbers and are not uniquely identifiable from the information contained within the fixed asset register.	All assets should be identifiable from the information contained on the fixed asset register. This could be via a unique asset number or through the recording of serial numbers on the register.	Assets cannot be physically verified or adequately safeguarded if they cannot be located from the information contained on the asset register.	
Management Response		Responsibility/ Deadline	Priority
Recommendation agreed, although this finding simply replicates an element of the finding previously presented at 2.2		Finance Manager / end June 2005	Two

Section 2 - Detailed Findings and Recommendations (Continued)

2.6 Capitalisation Thresholds

Finding	Recommendation	Rationale	
<p>There are at present no monetary thresholds for capitalisation.</p> <p>Our testing identified assets that would not normally be classified as fixed assets on the Authority's fixed assets register.</p>	<p>A threshold of £500 should be allocated for the capitalisation of assets. Any assets which are under this value but are considered to be fixed assets should be approved by the Head of Corporate Services prior to purchase and inclusion on the fixed asset register.</p>	<p>Items which are of no significant value may be recorded on the asset register.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Agreed that the Authority should set a "de minimis" level below which assets will not be capitalised. I would suggest that this finding does not represent a priority 2 level, given in particular that Audit Scotland have already accepted the existing capitalisation policy in their audit of the 2003/04 accounts.</p>		<p>Head of Corporate Services / April 2005.</p>	<p>Two</p>

Section 2 - Detailed Findings and Recommendations (Continued)

2.7 Asset Registers

Finding	Recommendation	Rationale	
<p>Discussions with the Finance Manager and IT Officer identified that separate IT and central asset registers are maintained. The IT register details location of assets and has a specific asset number for each piece of equipment. However no value is recorded on the register or date of purchase.</p> <p>The asset register includes values for IT equipment but does not detail locations or in some cases date of purchase.</p>	<p>All information from the IT register should be incorporated into the asset register, especially the information regarding the location of the assets.</p>	<p>The central asset register for the organisation is not accurate in terms of location of assets.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Recommendation agreed.</p>		<p>Finance Manager / end June 2005</p>	<p>Two</p>

Section 2 - Detailed Findings and Recommendations (Continued)

2.8 Lease Classification

Finding	Recommendation	Rationale	
<p>All leases held have been inherited from the Cairngorms Trust and maintained as the original classification of the Trust. Discussions with the accountant highlighted the need for a review of the current lease classifications, especially in light of the vast leasehold improvements that have taken place.</p>	<p>A detailed review of each existing lease should be undertaken in order to determine whether they are finance or operating leases. New leases should be analysed as standard practice to determine whether they are finance or operating leases.</p>	<p>Leases may be incorrectly classified in the financial statements and may not be compliant with current Accounting Standards.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>This recommendation is somewhat surprising, given that all lease classifications were considered and agreed as part of the external audit for 2003/04 undertaken by Audit Scotland. It may be that the internal auditors have misunderstood discussions with the Finance Manager on this subject.</p>			<p>Two</p>

Section 2 - Detailed Findings and Recommendations (Continued)

2.9 Fixed Asset Disposal

Finding	Recommendation	Rationale	
The lack of detail in the fixed asset register could obstruct recognition of asset disposal and the gain / loss recognised in each asset. Several old computers held by the IT officer are to be disposed of soon, but cannot be traced to the Register.	The fixed asset register should include a detailed description of each asset and the original cost. Details of the disposal and any money received on disposal should be documented in sufficient detail in order for the gain/loss on disposal to be calculated accurately. The asset should then be removed from the Register.	To ensure the true gain/loss on disposal is taken to the Profit & Loss Account in the year of disposal, and to ensure that items no longer held by the Authority do not remain on the Register once they have been scrapped or ownership has been transferred.	
Management Response		Responsibility/ Deadline	Priority
Recommendation agreed. Again, an element of this recommendation duplicates that set out in the finding previously presented under 2.2		Finance Manager / end June 2005	Two

Section 3 - Statement of Responsibility

We take responsibility for this report, which is prepared on the basis of the limitations set out below.

Enterprise Risk Services

Deloitte & Touche LLP

Inverness

March 2005

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full financial and operational impact before they are implemented. This report has been prepared solely for use by Cairngorms National Park Authority and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

Appendix A - Control Assessment

Fixed Assets KEY CONTROLS	CONTROL IN PLACE?			YOUR EFFECTIVENESS ASSESSMENT			
	YES	NO	N/A	OPTIMAL	ADEQUATE	NEEDS IMPROVING	INADEQUATE
Responsibility: All fixed asset investments are subject to assessment / appraisal and structured authorisation procedures.	✓					✓	
Responsibility: A structured fixed asset register or listing is in place.	✓					✓	
Responsibility: The fixed asset register provides detail on the physical location of each asset.	✓					✓	
Responsibility: All fixed asset purchases are approved in advance by the appropriate personnel or an appropriate group.	✓				✓		
Responsibility: All fixed asset additions are booked to the Fixed Asset Register and appropriate Nominal Ledger account in the month acquired.	✓				✓		
Responsibility: The depreciable life and asset categorisation is in line with defined depreciation policy.		✓					
Responsibility: An accurate monthly charge for depreciation is calculated each month and reflected in the Nominal Ledger monthly.		✓					
Responsibility: All asset disposals are approved in line with the SFIs and SFPs		✓					
Responsibility: Gains or losses on sale of assets have been properly calculated and booked to the Nominal Ledger in the month in which they occurred.			✓				

Appendix B - Personnel Interviewed

- **Denby Pettitt – Finance Manager**
- **Andy Rinning –**
- **Morag James – Payroll Officer**
- **Amanda Mathieson – Finance Assistant**

DELLOITTE