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Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority

Internal audit report 2013-14
Control risk self - assessment

19 November 2013

This report is for:

Action

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Information

Audit Committee

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Notice: About this report

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Introduction

In accordance with the 2011-12 to 2013-14 strategic internal audit plan for Loch Lomond & The Trossachs National Park Authority (“LLTNPA”) and Cairngorms National Park Authority (“CNPA”), as approved by the audit committees, we have performed an internal audit of controls risk self-assessment. The control risk self-assessment (“CRSA”) allows organisations to assess the design and effectiveness of controls over risks associated with key processes. This allows for efficient and risk focussed internal audit reviews. Following our review in years one and two, we have obtained from management a summary of financial processes and related controls and we used this to select key controls and sample test their operating effectiveness. The objective of the audit was to provide assurance over key financial systems through reviewing the appropriateness of the design of controls as well as how efficiently and effectively these controls operate.

The specific objective, scope and approach, as agreed with management, is detailed in appendix one.

Background

The control risk self-assessment allows organisations to assess the design and effectiveness of controls over risks associated with key processes. The assessment is usually presented in the form of a questionnaire and is completed by ‘process owners’ who score each control to confirm whether it is operating. The information is then used by management to make an assessment, at a high level, of the internal control environment, based on the responses to the CRSA questionnaire and by taking into account remedial work that is underway to improve controls. Completion of the CRSA was led by Andrew Jump at LLTNPA and Danie Ralph at CNPA.

The overall objective of this review was to provide assurance over key financial systems through reviewing the appropriateness of the design of controls as well as how effectively these controls operate. We identified six areas for inclusion in the CRSA: income and debtors, treasury and cash management, fixed assets, payroll and expenses, financial ledger and expenditure and creditors.

Controls were scored on the following basis:

Score	Description
n/a	Control is not applicable
0	Control is not performed
1	Control is rarely performed
2	Control is performed often
3	Control is performed all the time

Self assessed scores are summarised in the table opposite.

LLTNPA has achieved an overall score of 95% (2012-13: 95%).

CNPA has achieved an overall score of 92% (2012-13: 94%).

Key processes	Authority	Number of assessment questions	Number of applicable questions	Potential score	Actual score	Percentage
Income and debtors	LLTNPA	15	13	39	36	92%
	CNPA	15	11	33	31	94%
Treasury and cash management	LLTNPA	15	9	27	27	100%
	CNPA	15	9	33	32	97%
Fixed assets	LLTNPA	11	9	27	27	100%
	CNPA	10	9	27	24	89%
Payroll and expenses	LLTNPA	12	12	36	32	89%
	CNPA	12	12	36	33	92%
Financial ledger	LLTNPA	13	13	39	37	95%
	CNPA	13	11	33	29	88%
Expenditure and creditors	LLTNPA	8	8	24	23	96%
	CNPA	8	8	24	23	96%
Totals and overall average score	LLTNPA	74	64	192	182	95%
	CNPA	73	60	186	172	92%

Source: Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority

Introduction and background (continued)

Using our experience of the public sector within Scotland, we have compared the self-assessment scores to those provided by our other clients, as detailed below. This demonstrates that both authorities' control frameworks are in line with our wider sector experience.

	Income and debtors	Treasury and cash management	Fixed assets	Payroll and expenses	Financial ledger	Expenditure and creditors	Totals and overall average score
LLTNPA 2013-14	92%	100%	100%	89%	95%	96%	95%
LLTNPA 2012-13	92%	100%	100%	92%	92%	96%	95%
CNPA 2013-14	94%	97%	89%	92%	88%	96%	92%
CNPA 2012-13	94%	97%	90%	92%	97%	96%	94%
Comparable entities	94%	95%	90%	99%	96%	95%	93%

Executive summary: Key findings and recommendations

We identified no ‘critical’ or ‘high’ risk graded recommendations in the course of our work.

LLTNPA

We identified two ‘moderate’ and two ‘low’ risk graded recommendations.

CNPA

We identified two ‘moderate’ and two ‘low’ risk graded recommendations.

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Management has accepted the findings and agreed reasonable actions to address the recommendations.

	Authority	Critical	High	Moderate	Low
Number of internal audit findings	LLTNPA	-	-	2	2
	CNPA	-	-	2	2
Number of recommendations accepted by management	LLTNPA	-	-	2	1
	CNPA	-	-	2	2

Summary of findings

We identified no ‘critical’ or ‘high’ risk graded recommendations in the course of our work. From our work we noted the following:

- There have been changes in finance personnel at both Authorities, particularly at CNPA, however, CRSA scores remain high and compare favourably with our benchmarks.
- Financial controls appear appropriate for the size and nature of each of the Authorities, whilst reflecting differences in operations, for example income processes.
- There are a number of ‘moderate’ and ‘low’ risk findings where management has agreed appropriate actions to implement them.

The action plan summarises specific recommendations, together with related risks and management's responses.

Finding(s) and risk	Recommendation(s)	Agreed management actions
<p>1 Purchase invoice authorisation</p>		
<p>During testing we identified instances where purchase orders were raised after the related invoice was received.</p> <p>There is a risk that goods or services that are inappropriate or not in line with budget are purchased.</p>	<p>It is recommended that purchase orders are always raised when initiating the purchasing process. This should then be sent to the finance department and subject to appropriate review and approval prior to placing the order externally.</p>	<p>Moderate</p> <p>Agreed - Communication emphasising the need for buyers to complete a purchase order at time of starting the process has been communicated via Park Central. Furthermore an email has been sent to all budget holders reminding of the same.</p> <p>Responsible officer: Andrew Jump</p> <p>Implementation date: Immediate</p>
<p>2 Authorisation of journals</p>		
<p>Automatic journals, primarily used for payroll payments, are posted by the finance manager but no hard copy evidence, signed or otherwise, is held by the department to evidence segregation of duties.</p> <p>Further, manual journals posted by the finance department do not appear to have any level of authorisation in addition to the preparer.</p> <p>When we requested a listing of all journals for the period we found that the system generated reference numbers (e.g. 8054) had additional numbers attached to them. This meant that, when running a listing from the finance system, the journal references weren't succinct or sequentially numbered.</p> <p>There is a risk that inappropriate and/or inaccurate journals are processed to the financial ledgers.</p>	<p>It is recommended that evidence of authorisation prior to posting is retained for all journals.</p>	<p>Low</p> <p>Agreed - Although there are sufficient and robust systems to ensure segregation of duties are in place we will ensure that we retain authorisation evidence prior to posting.</p> <p>In terms of the referencing of system generated numbers, with immediate effect, these system generated journal entry numbers will not be amended and therefore audit trails will be maintained. This will also enable quick search and printout of journals and journal audit trails.</p> <p>Responsible officer: Andrew Jump</p> <p>Implementation date: December 2013</p>

Action plan – LLTNPA (continued)

Finding(s) and risk	Recommendation(s)	Agreed management actions
3 Cheque payment authorisation		Low
<p>Cheque payments are prepared in the same manner as BACs runs and cheques are stored, pre-signed, in a safe.</p> <p>In the sample tested, it was found that not all cheques/printouts were signed as prepared.</p> <p>There is a risk that inappropriate payments are made.</p>	<p>It is recommended that cheque runs are both signed as prepared and signed as authorised in order to ensure segregation of duties.</p>	<p>Accepted - Although there was evidence of one printout not being physically signed, the printout was reviewed.</p> <p>Responsible officer: Andrew Jump</p> <p>Implementation date: Immediate</p>

Action plan – LLTNPA (continued)

Finding(s) and risk	Recommendation(s)	Agreed management actions
<p>4 Staff expenses</p>		<p>Low</p>
<p>Staff members fill out an expense form, detailing what the expenses relate to and attach any relating receipts. The expense form is then signed by the individual as well as their line and operational managers.</p> <p>Testing identified that one expense form was electronically signed and not physically signed by pen. This creates a risk that an incorrect staff member approves the claim.</p>	<p>It is recommended that, before expenses are paid, expense forms are physically signed by the appropriate member of staff to ensure stronger evidence of authorisation.</p>	<p>Not accepted - we accept electronic forms submitted by email. There are sufficient controls over systems access via our IT policies that only permits the individual to submit their own forms via their email to their line manager. The line manager in accepting the expense claim signs and approves the form. Payroll accepts that if a line manager approves a form in this way then they are happy with the electronic tagging process. The exception to this is where there is a claim for public transport, subsistence, other fares etc that they physically have to present the form signed along with the relevant receipts as we do not accept scanned receipts.</p> <p>Responsible officer: n/a</p> <p>Implementation date: n/a</p>

Finding(s) and risk	Recommendation(s)	Agreed management actions
<p>1 Sales invoice authorisation Low</p>		
<p>None of the sales invoices selected for testing were evidenced as authorised or reviewed before issue.</p> <p>This creates the risk that sales invoices raised may be issued with inaccurate or incorrect information.</p>	<p>All sales invoices should be reviewed before being issued to ensure that the details on the invoice are correct and the raising of the invoice is in-line with budget.</p>	<p>Agreed. A new process including a sales invoice request form is being introduced to be signed off by the requesting officer and reviewed and approved by the Finance Manager prior to issue .</p> <p>Responsible officer: Finance Manager</p> <p>Implementation date: 31 March 2014</p>
<p>2 Bank reconciliation process Moderate</p>		
<p>Whilst our testing found that bank reconciliations were signed by the preparer, none of the reconciliations tested showed evidence of review.</p> <p>This creates a risk that reconciliations are not reviewed and therefore may not be appropriately prepared.</p>	<p>It is recommended that bank reconciliations must be reviewed and authorised in a timely manner. This will also ensure appropriate segregation of duties.</p>	<p>Accepted that review of bank reconciliations and their sign off appears to have lapsed in the period of turnover between Finance Managers. These will now be reviewed monthly by the Finance Manager.</p> <p>Responsible officer: Finance Manager</p> <p>Implementation date: 30 November 2013</p>

Action plan – CNPA (continued)

Finding(s) and risk	Recommendation(s)	Agreed management actions
3 Journal authorisation		Moderate
<p>All journals are processed by either the finance officer or the finance manager. Journals relating to payroll are processed by the payroll officer. All journals should be printed once raised and physically signed as reviewed by the finance manager.</p> <p>There is a risk that inappropriate journals are posted to the ledger.</p>	<p>All journals should be authorised by an appropriate level of management prior to posting.</p>	<p>Agreed</p> <p>Responsible officer: Finance manager</p> <p>Implementation date: November 2013</p>

Action plan – CNPA (continued)

Finding(s) and risk	Recommendation(s)	Agreed management actions
<p>4 Purchase invoice authorisation</p>		<p>Low</p>
<p>During testing, we identified two invoices without requisition forms attached. This meant that no physical evidence was held to indicate that the purchase had been approved in the appropriate manner prior to commitment.</p> <p>There is a risk that inappropriate purchases are made.</p>	<p>It is recommended that purchase order requisition forms are attached to the related invoices when physically stored.</p>	<p>All purchases are to be evidenced by a requisition form or other appropriate invoice depending on the nature and materiality of the purchase.</p> <p>A new procedure is being introduced to cover specifically the ordering of legal services - to make managers more responsible when seeking advice. This order has to be approved and signed off by a director. The guidance to be issued with the request form will be equally applicable to other purchases - if there is no purchase order the invoice will not be processed and will not be paid.</p> <p>Responsible officer: Finance Manager</p> <p>Implementation date: 31 March 2013</p>

Appendices

Appendix one

Summary of findings - LLTTNPA

We have summarised on the right our findings in areas where either Authority scored less than 100%.

Process	Control reference	Control question	Authority	Score	Internal audit comments
Income and debtors	1.8	Do you perform client credit worthiness, payment history and reference checks prior to taking on a customer?	LLTTNPA	0	Based on the low level of risk, we have not raised a recommendation in relation to this area.
Payroll and expenses	4.11	Are management and employee expenses reviewed and authorised prior to being paid/reimbursed (including corporate card expenditure)? Is there evidence of this review and authorisation?	LLTTNPA	2	Refer recommendation four.
	4.12	Are controls in place to ensure that changes to employee data are verified through issuing written confirmation or via the individual's institutions e-mail address?	LLTTNPA	0	Based on the low level of such changes and other controls in place, we have not raised a recommendation in relation to this control.
Financial ledger	5.5	Is supporting documentation for all journals kept for future reference?	LLTTNPA	1	Refer recommendation two.

Appendix one
Summary of findings – LLTTNPA (continued)

Process	Control reference	Control question	Authority	Score	Internal audit comments
Expenditure and creditors	6.5	<p>Have the following activities been segregated:</p> <ul style="list-style-type: none"> ■ approving new suppliers and amending supplier masterfile data/supplier details; ■ amendment of supplier masterfile data and the processing of payments; ■ recording and the authorising of transactions including purchase orders, invoices and credit notes; ■ making payments and the posting of the items; and ■ placing orders and making payments. <p>If not segregated, are appropriate compensating controls in place, for example, independent review of supplier changes, transactions or balances by the finance director or principal?</p>	LLTTNPA	2	Refer recommendations one and three.

Appendix one

Summary of findings - CNPA

Process	Control reference	Control question	Authority	Score	Internal audit comments
Income and debtors	1.3	Are invoices reviewed to check the accuracy of the invoice and ensure the invoice reflects work completed before sending the invoice to the customer?	CNPA	2	Refer to recommendation one.
	1.11	Are debtors listings produced each period and reviewed for aged debtors and credit balances? Is the balance per the debtors listing agreed to the sales ledger?	CNPA	2	Based on the low level of risk, we have not raised a recommendation in relation to this area.
Treasury and cash management	2.11	Are reconciliations prepared and reviewed for each bank account on a monthly basis?	CNPA	2	Refer to recommendation two.
Fixed assets	3.3	Are all assets tagged, or physically verified regularly to ensure existence.	CNPA	1	Larger and more expensive assets are tagged and verified as part of year end processes. Based on the low level of risk and other controls in place, we have not raised a recommendation in this area.
Payroll and expenses	4.12	Are controls in place to ensure that changes to employee data are verified through issuing written confirmation or via the individual's institutions e-mail address?	CNPA	0	Based on the low level of such changes and other controls in place, we have not raised a recommendation in relation to this control.

Summary of findings – CNPA (continued)

Process	Control reference	Control question	Authority	Score	Internal audit comments
Financial ledger	5.3c	Fixed asset register to general ledger fixed assets accounts is reconciled for cost and accumulated depreciation at half year and year end. Where the Fixed Asset register automatically updates the general ledger and no reconciliation is performed, do you check the balances in the ledgers agree?	CNPA	2	Due to low level of fixed assets movements, we have not raised a recommendation in this area.
	5.5	Is supporting documentation for all journals kept for future reference?	CNPA	0	Refer to recommendation three.
Expenditure and creditors	7.6	Are there procedures and controls to ensure all expenditure (including purchases, payroll, taxes etc) is appropriately authorised, recorded correctly and accurately in purchases, creditors or accruals in the ledgers as appropriate?	CNPA	2	Refer to recommendation four.

In accordance with the 2011-12 to 2013-14 strategic internal audit plan for Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority, as approved by the Audit Committee, we have performed an internal audit of controls risk self assessment.

Objective

The objective of the audit is to provide assurance over key financial systems through reviewing the appropriateness of the design of controls as well as how efficiently and effectively these controls operate.

Scope

The following areas have been included within the CRSA that Authorities management will complete;

- Income and debtors;
- Cash and treasury management;
- Fixed assets;
- Payroll and expenses;
- Financial ledger; and
- Expenditure and creditors.

Approach

Building on our experience from prior years and management's completion of the questionnaire, we will select a sample of financial controls and test their operation throughout the period, ensuring;

- The control is designed appropriately and implemented i.e. Whether the control is designed appropriately to manage stated risks;
- The control is operating effectively i.e. Whether the control is operating in line with procedures and in a timely manner; and
- If there are any opportunities for increased efficiency through re-designing, or where appropriate, eliminating steps within the financial process and complying with better practice.

Appendix three

Classification of findings

In determining the priority rankings of internal audit recommendations we consider the potential impact and exposure to the entity versus the probability of occurrence. Detailed below is a summary of our priority ranking matrix.

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

Appendix three

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



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