

# Cairngorms National Park Authority

## INTERNAL AUDIT REPORT

### Financial Processes

February 2017

#### LEVEL OF ASSURANCE

Design	Operational Effectiveness
Substantial	Substantial



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# EXECUTIVE SUMMARY

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)	
Design	 There is a sound system of internal control designed to achieve system objectives.	High	
Effectiveness	 The controls that are in place are being consistently applied.	Medium	 1
		Low	 2
		Total number of recommendations: 3	

## OVERVIEW

**Background**

As part of the 2016-17 Internal Audit plan, it was agreed that Internal Audit would perform a high level review of key financial control systems in place within Cairngorms National Park Authority (CNPA). The purpose of this review was to assess whether CNPA is effective in maintaining good financial controls and to provide assurance to management and the Audit Committee on the design and operational effectiveness of the key financial control processes in place.

CNPA's Financial Regulations are reviewed by management every six months. The Financial Regulations provide overall guidance on the Authority's policies and the roles and responsibilities of the Board and sub-committees in relation to financial control.

The regulations are supported by a number of financial policies and process notes. The Finance Management Excel schedule is being developed by management to provide detailed policies and guidance to staff on all key financial processes. Processes are categorised between incoming resources, outgoing resources, internal processes, external processes, and projects. Within the outgoing resources category, for example, guidance is being developed for processing purchase invoices, one-off payments, staff and Board costs, expenses, and petty cash.

Step-by-step procedure notes are provided for a number of financial processes within an operational Finance document. Notes outlining the procedure to be followed for processing expenses, payments and incoming invoices are provided in the document, in addition to the process for generating transactional and budget reports. Supporting procedure notes have also been developed for processing bank reconciliations and the monthly payroll.

# EXECUTIVE SUMMARY

## OVERVIEW

### Overview of processes

Grant in Aid received from the Scottish Government is CNPA's main source of income, with additional income being received from partner bodies providing non-government grants. Grant agreements stipulate the value and frequency of instalments, and whether the funds are unrestricted, where these can be utilised at the discretions of the Authority, or restricted, where funds can be utilised for specific projects. Separate bank accounts are held for core CNPA, LEADER and Tomintoul & Glenlivet partnership activities. Bank reconciliations are prepared by the Finance Officer and authorised by the Finance Manager on a monthly basis within ten working days of the month end, depending on when the weekend falls, in accordance with the Finance Management schedule.

A manual purchase order process is in operation at CNPA, with staff required to raise purchase orders and obtain the approval of an authorised signatory in accordance with defined limits. Purchase order and invoice authorisation limits are documented on a Delegated Authority schedule which provides the authorised signatory by cost centre, such as staff salaries or legal fees. The authorisation limits range from under £2,000 to over £164,176 and staff permissions are colour coded in relation to the level of authority allocated to their position. Purchase orders between a value of £10,000 and £25,000, for example, can be authorised by the relevant Head of Service with evidence of consultation with the relevant Director. The Management Team has authority to raise orders over £50,000, with approval required by the Scottish Government.

Payment runs are completed on a weekly basis and require the authorisation of two of the signatories outlined in the CNPA Financial Management Procedures. Online payments are processed through the Bank of Scotland's online banking platform and all payments made are recorded on Sage.

Fixed assets are purchased in accordance with the authorisation limits defined in the Delegated Authority schedule. A fixed asset register is maintained on a management accounts schedule by the Finance Manager. Depreciation is calculated on a monthly basis from the month of purchase over the estimated useful life of the asset, with major assets being depreciated from the month these are operational and brought into use.

CNPA's finance system, Sage, is integrated with the Sage 50 Payroll system. A monthly reconciliation is required to be performed between data stored on Sage 50 Payroll and data stored on Snowdrop, CNPA's HR system. The HR department provides Payroll department with a monthly salary report from the Snowdrop system which lists individual staff salaries and provides a total salary figure. Once the total has been reconciled to a Sage Payment Summary report, a signature is required from the Director of Corporate Services or Head of Organisational Development prior to the salary being processed for payment.

# EXECUTIVE SUMMARY

## OVERVIEW

Monthly management accounts, which provide detail of income received and expenditure incurred against budget, are reviewed by the Management Team. Summary reports of income and expenditure are provided to the Finance and Delivery Committee up to four times per year. Reports of income and expenditure categorised by core and project activities, month, and department are reviewed by the committee, which is also responsible for overseeing the preparation of the annual budget. Abbreviated reporting on income and expenditure is also provided to CNPA's sponsoring department, the Scottish Government Rural Directorate, on a monthly basis.

### Scope and Approach

The scope of the review was to assess whether the procedures and controls in place for the key financial processes including cash and bank, purchasing, income, fixed assets and payroll, are well designed and operate as described. We also assessed whether there is adequate segregation of duties in place surrounding the key finance processes and whether there is effective management oversight of financial processes.

Our approach was to review key documentation in relation to key financial controls and interview finance staff to assess whether the design of the controls is appropriate. We performed walkthrough testing to confirm these were operating effectively and as described.

### Good Practice

We are pleased to report that our walkthrough testing confirmed that key financial processes, including cash and bank, purchasing, income, fixed assets and payroll, are operating as described by management. Our testing also confirmed that authorisation limits are clearly documented on a Delegated Authority schedule which provides the authorised signatory by cost centre. There is effective oversight of key financial processes in place through review of the monthly management accounts by the Management Team and summary income and expenditure reports reviewed by the Finance and Delivery Committee up to four times per year.

### Key Findings

Notwithstanding the areas of good practice noted above, we have noted areas where further improvement is possible, summarised below:

- **Bank of Scotland online banking platform access** - There is an ongoing issue affecting the accessibility of Bank of Scotland's online banking platform, which is required to process payments. We observed that staff require several attempts to access the online banking platform until they are successful.

# EXECUTIVE SUMMARY

## OVERVIEW

- **Policies and procedures** - A number of financial processes, including debtors reconciliations, purchase ledger reconciliations, requisitions and petty cash, still require to be documented within the Finance Management Excel schedule, which is being developed by management to provide detailed policies and guidance to staff on all key financial processes.

In addition, there is an opportunity to outline roles and responsibilities within the guidance notes for all processes to clearly document the segregation of duties within CNPA's Financial Management Procedures, which provides step-by-step procedure notes for a number of financial processes.

- **Month end checklist** - Whilst the monthly reconciliations and month end checks we tested were prepared, evidenced and authorised appropriately within 10 working days of the month end, use of a month end checklist could be a useful additional control to ensure all month end tasks are carried out within the required timescale and further improve the oversight of the month end financial processes.

### Conclusion

We are able to provide substantial assurance over the design and operational effectiveness of the key financial control processes.

## RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE


- ☑ Inadequate segregation of duties may compromise the control environment in relation to key finance processes.
- ☑ Inadequate management oversight of financial processes compromises control effectiveness.

# EXECUTIVE SUMMARY

## RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE

- ✓ Inadequate segregation of duties may compromise the control environment in relation to key finance processes.
- ✓ Inadequate management oversight of financial processes compromises control effectiveness.

# EXECUTIVE SUMMARY


AREAS FOR IMPROVEMENT			
Ref.	Sig.	Finding Summary	Recommendation
1		<p>There is an ongoing issue affecting the accessibility of the Bank of Scotland online banking platform, which is required to process payments. We observed that staff require several attempts to access the online banking platform until they are successful. Staff have been experiencing this issue for around nine months.</p> <p>Management have been unable to identify the cause of the issue through investigations performed into network connectivity and permissions to access the site.</p>	<p>We recommend that further investigation is undertaken to determine the cause of the issue affecting the accessibility of Bank of Scotland’s online banking platform, and the steps required to fully resolve this issue.</p> <p>We recognise that management have arranged for Loch Lomond &amp; The Trossachs National Park Authority ‘s ICT Systems Manager to investigate the issue in February 2017.</p>

All our findings and recommendations are set out in the following pages and include those of low significance which have not been summarised above.



# DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Ineffective or inefficient procedures and controls may be in place for the finance processes.

Ref.	Finding	Sig.	Recommendation
1	<p>Payment runs are completed on a weekly basis and require the authorisation of two of the signatories outlined in the CNPA Financial Management Procedures, with online payments then processed through the Bank of Scotland’s online banking platform.</p> <p>However, there is an ongoing issue affecting the accessibility of Bank of Scotland’s online banking platform. We observed that staff require several attempts to access the online banking platform until they are successful. Staff have been experiencing this issue for around nine months.</p> <p>Management have been unable to identify the cause of the issue through investigations performed into network connectivity and permissions to access the site.</p> <p>There is a risk that payments, including the payment of staff salaries, will not be made in a timely basis. There is also a risk that other key processes are not completed appropriately as a result of the time required to access the online banking platform.</p>		<p>We recommend that further investigation is undertaken to determine the cause of the issue affecting the accessibility of Bank of Scotland’s online banking platform, and the steps required to fully resolve this issue.</p> <p>We recognise that management have arranged for Loch Lomond &amp; The Trossachs National Park Authority ‘s ICT Systems Manager to investigate the issue in February 2017.</p>
MANAGEMENT RESPONSE OVERLEAF		RESPONSIBILITY AND IMPLEMENTATION DATE OVERLEAF	

# DETAILED FINDINGS AND RECOMMENDATIONS

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
<p>Accepted. There is ongoing investigation into the issue and the fire wall was replaced on 3 February. This will require some "bedding in" to see if this ameliorates the issue.</p> <p>We are continuing with a log of successful and unsuccessful log on attempts. The issue will be raised with BoS at a "readiness" meeting next week to discuss the migration of banking data from "Online Banking" to the new "Corporate Banking Online" portal in mid-May.</p> <p>It now appears that the issue may lie with BoS. It appears that BoS do "load shifting" on their servers as two IP addresses have been identified when we try to access online banking. We think that depending on the volume of traffic into BoS this "load" is switched between 2 servers, which would account for the randomness of success/failure. We now know the IP addresses of both and one works for us, the other doesn't. We've matched attempts from individual machines in Finance to log on to BoS and the success of the machines can be traced to one IP address only.</p> <p>We will ask if it is possible that we can always be directed to the "right" server. We will also ask if the issue is linked to the migration to CBO in some way, and, if so, if our migration to be accelerated.</p> <p>In the mean time we've settled on a work round, especially on days we know we know are going to make payments. That is, as soon as we gain access we keep the log in screen open until we need in. It seems to work but is not a solution.</p> <p>As it has severe operational issues the most appropriate timescale is as soon as possible.</p>	<p><i>Responsible Officer: Finance Manager</i></p> <p><i>Implementation Date: 30 June 2017</i></p>

# DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Ineffective or inefficient procedures and controls may be in place for the finance processes.

Ref.	Finding	Sig.	Recommendation
2	<p>CNPA's Financial regulations are supported by a number of financial policies and process notes. The Finance Management Excel schedule is being developed by management to provide detailed policies and guidance to staff on all key financial processes.</p> <p>However, a number of financial processes, including debtors reconciliations, purchase ledger reconciliations, requisitions and petty cash, still require to be documented within the Finance Management Excel schedule.</p> <p>In addition, step-by-step procedure notes are provided for a number of financial processes within CNPA's Financial Management Procedures and our walkthrough testing confirmed that key financial processes are operating as described by management. However, there is an opportunity to outline roles and responsibilities within the guidance notes for all processes to clearly document the segregation of duties.</p> <p>There is a risk that procedures and controls in place for key financial processes, including roles and responsibilities, have not been documented appropriately.</p>	●	<p>We recommend that the Finance Management schedule is updated to provide detailed policies and guidance on all financial processes. These should be reviewed on an annual basis.</p> <p>We also recommend that clear roles and responsibilities demonstrating segregation of duties are documented within the guidance notes for all financial processes.</p> <p>We recognise that management have made progress in developing the schedule and that completion of this was delayed due to the implementation of the new Sage system.</p>
<b>MANAGEMENT RESPONSE</b>		<b>RESPONSIBILITY AND IMPLEMENTATION DATE</b>	
Accepted. We are currently reviewing and updating all procedures.		<p><i>Responsible Officer: Finance Manager</i></p> <p><i>Implementation Date: 30 June 2017</i></p>	

# DETAILED FINDINGS AND RECOMMENDATIONS

RISK: There is inadequate management oversight of financial processes.			
Ref.	Finding	Sig.	Recommendation
3	<p>The Finance Management schedule provides an overview of the preparation of monthly management information, annual accounts and annual report.</p> <p>The schedule also outlines that each month of the financial year is treated as a discrete period with the aim of closing off and rolling forward within 10 working days of the month end. Whilst the monthly reconciliations we tested were prepared and authorised appropriately within 10 working days of the month end, there is an opportunity for management to develop a month end checklist to further improve the oversight of the month end financial processes.</p>	●	We recommend that a month end checklist of all key financial tasks is developed and maintained by the Finance department.
MANAGEMENT RESPONSE			RESPONSIBILITY AND IMPLEMENTATION DATE
Accepted.			<p><i>Responsible Officer: Finance manager</i></p> <p><i>Implementation Date: 30 June 2017</i></p>

# OBSERVATIONS

## **Purchasing system**

A manual purchase order process is in operation at CNPA. Around 450 purchase orders were raised in 2016, with staff required to raise purchase orders and obtain the approval of an authorised signatory in accordance with limits defined in the Delegated Authority schedule. Whilst our testing confirmed that purchase orders are being raised and authorised appropriately, there is an opportunity for management to consider the costs and benefits of implementing an electronic purchasing system to reduce the manual input required.

## **Payroll and HR systems interface**





A monthly reconciliation is required to be performed between data stored on Sage 50 Payroll and data stored on Snowdrop, CNPA's HR system. Whilst our testing confirmed that reconciliations are being prepared and authorised appropriately, there is an opportunity for management to consider the costs and benefits of implementing an interface between Sage 50 Payroll and Snowdrop to reduce the manual input required.




# APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Daniel Ralph	Finance Manager
Diane Buchan	Finance Officer
Emma Grant	Business Administration Apprentice
Mark Tucker	Trainee Accounts, Payroll & Finance Officer

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

# APPENDIX II - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b> 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b> 	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
<b>Limited</b> 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>No</b> 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
<b>High</b> 	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
<b>Medium</b> 	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
<b>Low</b> 	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

# APPENDIX III - TERMS OF REFERENCE

## BACKGROUND

As part of the 2016-17 Internal Audit Plan, it was agreed that Internal Audit would perform a high level review across all key financial control systems. This will include a review of processes relating to purchasing, income, cash and banking, payroll and fixed assets.

## PURPOSE OF REVIEW


The purpose of this review is to assess whether Cairngorms National Park Authority is effective in maintaining good financial controls and to provide assurance to management and the Audit Committee on the design and effectiveness of the key financial control processes in place.

## KEY RISKS

Based upon the risk assessment undertaken during the development of the internal audit operational plan and through discussions with management, the key risks that relate to the finance systems can be categorised as follows:

- Ineffective or inefficient procedures or controls may be in place for key finance processes;
- Inadequate segregation of duties may compromise the control environment in relation to key finance processes; and
- Inadequate management oversight of financial processes compromises control effectiveness.





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