# Cairngorms National Park Authority 2003/04 Audit

## Main Accounting System

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# Executive Summary

## Introduction

1.1 The Cairngorms National Park Authority was set up under the National Parks (Scotland) Act 2000. It is Scotland's second national park and the United Kingdom's largest at 3800 square kilometres (1400 square miles).

1.2 This report summarises the findings from our review of the Authority's main accounting systems and, where appropriate, makes recommendations to address the weaknesses identified. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses that exist.

1.3 Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to implement appropriate internal control systems. It should also be noted that communication of weaknesses does not absolve management from its responsibility for the maintenance of an adequate system of control.

## Key objectives

1.4 As part of our 2003/04 audit, we undertook a review of procedures to evaluate whether the internal control system is adequate. The key objectives of the audit were to assess:

- The extent of controls over data input;

- The extent of controls over system output;

- The extent to which an audit trail of transactions is maintained.

## Summary of Main Findings

1.5 Our review has found that the system of internal control within the main accounting system is generally operating satisfactorily and there are some examples of good practice. An example of good practice we would highlight is the audit trail within the Sage accounting system, which allows an item to be traced from input through to its final resting place. However, audit testing did highlight a number of areas of concern which management will require to address. In particular, we found that there is no comprehensive set of written procedures covering the Authority's financial operations. The main points arising from the audit are as follows:

### Areas of good practice

- The existence of an audit trail within the Sage accounting system, which allows an item to be traced from input through to its final resting place;

- The BACS report as submitted to the bank is retained on file and contains the required two signatures as evidence of authorisation.

### Areas with Scope for Improvement

- There is no comprehensive set of written procedures covering the Authority's financial operations;

- There is no regular reconciliation between the nominal ledger and its feeder systems;

- The audit trail is not regularly reviewed by a senior officer.

## Action Plan

1.6    The Action Plan included in Section 2 of this report sets out the agreed actions to be taken in response to the main recommendations.  They are graded to show their relative priority, and the timescales within which the issues are to be addressed.  The Action Plan should be read in conjunction with the relevant reference from the main findings (Section 4).

1.7    The factual accuracy of the content of this report, and the remedial action to be taken, has been agreed in discussion with the appropriate officials.

## Acknowledgements

1.8    The co-operation and assistance afforded to audit staff during the course of the review are gratefully acknowledged.

# Action Plan

| Page/ Para. Ref. | Rec. No. | Recommendation | Responsible Officer | Agreed | Comments | Agreed Completion Date |
|---|---|---|---|---|---|---|
| 6/4.2 | 1 | **Input controls**<br><br>There should be a comprehensive set of procedural instructions covering all aspects of the Authority's financial operations.<br><br>*Medium priority* | Head of Corporate Services | Yes | | October 2004 |
| 6/4.4 | 2 | Procedures should be reviewed to ensure that all payment vouchers show evidence of having been authorised before input to financial systems.<br><br>*High priority* | Head of Corporate Services | Yes | The review is complete and procedures have been revised. These procedures will be included in the procedural instructions referred to above. | October 2004 |
| 6/4.5 6/4.6 | 3 | There should be regular reconciliation between the nominal ledger and the feeder systems (purchase ledger and payroll systems).<br><br>*Medium priority* | Head of Corporate Services | Yes | | June 2004 |
| 7/4.9 | 4 | **Output controls**<br><br>The payroll report should be signed and dated as evidence of having been checked and authorised.<br><br>*Medium priority* | Head of Corporate Services | Yes | | Implemented |
| 7/4.11 | 5 | **Audit trail**<br><br>Arrangements should be put in place for the audit trail to be reviewed by a senior official on a regular basis.<br><br>*Medium priority* | Head of Corporate Services | Yes | | June 2004 |

| Page/ Para. Ref. | Rec. No. | Recommendation | Responsible Officer | Agreed | Comments | Agreed Completion Date |
|---|---|---|---|---|---|---|
| 7/4.12 | 6 | Where payment vouchers are held in subsidiary files (e.g. payroll) the main file should contain an appropriate cross-reference to the subsidiary file. *Medium priority* | Head of Corporate Services | Yes | | Implemented |
| 7/4.13 | 7 | The accounting software used by the Authority does not identify individual users on the audit trail. We recommend that the possibility of including this facility be investigated. *Medium priority* | Head of Corporate Services | Yes | | June 2004 |

# Introduction

## Background

3.1    The Cairngorms National Park was set up under the National Parks (Scotland) Act 2000 with the aim of promoting sustainable economic and social development of the area's communities, conserving and enhancing the natural and cultural heritage of the area, to promote sustainable use of the natural resources of the area and to promote understanding and enjoyment of the special qualities of the area by the public.  The Cairngorms National Park is Scotland's second national park and the United Kingdom's largest at 3800 square kilometres (1400 square miles).

3.2    The Authority's forecast gross expenditure on a cash basis for 2003/04 is £2m.  The main source of income is grant-in-aid from the Scottish Executive.

3.3    The Cairngorm National Park Authority uses the Sage Line 50 computerised accounting system for its financial ledger and processing payroll, accounts payable and accounts receivable.

## Audit Scope and Objectives

3.4    As part of our 2003/04 audit activity we carried out a review of the Authority's main accounting systems, including the nominal ledger, purchase ledger and payroll systems. In particular we examined the Authority's controls to ensure that:

  •    All data input is genuine, complete, accurate, not previously processed, properly authorised and timely.

  •    There are sufficient controls over output to ensure its accuracy, completeness, confidentiality and timeliness.

  •    A complete audit trail is maintained which allows an item to be traced from input through to its final resting place and the final result to be broken into its constituent parts.

3.5    Our audit work included interviews with the Head of Corporate Services, and other officers in the Authority.  We also carried out detailed testing of individual transactions within the accounting systems.

3.6    Details of our audit findings are given in section 4 of this report.

# Main Findings

### Input controls

4.1    It is important for any organisation to have comprehensive written procedures covering its financial operations.  The use of such procedures helps to strengthen existing controls and also helps to ensure a consistent approach to data processing.

4.2    Our audit found that written guidance has been prepared for parts of its financial systems such as payroll and expenses claims.  We recommend that a comprehensive set of procedural instructions be prepared covering all aspects of the Authority's financial operations.

*Refer Action Plan Point 1*

4.3    We noted that data is input to the main accounting systems from the following sources:

- Purchase ledger – input from invoices authorised for payment

- Nominal ledger – input either from interface with purchase ledger or direct input by way of journal entries

- Payroll – input from authorised payroll documentation

We also noted that there is no interface between the payroll system and the nominal ledger and that payroll data are input to the ledger by journal entry.

4.4    As part of our audit work we selected a sample of thirty transactions from the month of January 2004 and checked that, where appropriate, they had been properly authorised before input.  We found two instances of payments that did not have a fully authorised payment voucher on file. We recommend that procedures be reviewed to ensure that all payment vouchers show evidence of having been authorised before input.

*Refer Action Plan Point 2*

4.5    An important control over data input is to have systematic reconciliations between the main financial ledger and any subsidiary feeder systems.  The Authority's purchase ledger is integrated with the main nominal ledger with postings being channelled through a nominal ledger control account.  We were unable to find evidence of any regular reconciliation between the control account and the balance on the purchase ledger.

*Refer Action Plan Point 3*

4.6    We also found little evidence of any comprehensive reconciliation between the payroll system and the nominal ledger, although we understand that certain items, such as PAYE, are regularly checked against the corresponding control accounts in the ledger.  Systematic reconciliation is extremely important in this instance because the two systems are not integrated and to confirm the integrity of the systems.

*Refer Action Plan Point 3*

## Output controls

4.7 We would expect to find adequate controls in place to ensure the accuracy, completeness and timeliness of system outputs. As part of our audit we examined the Authority's controls regarding the payroll output.

4.8 The monthly payroll report includes a list of the salaries to be paid to employees. It is understood that the Finance Support Officer submits the payroll report to the Head of Corporate Services (or the Chief Executive) for checking prior to payment. Payments are made direct to employees' bank accounts via the Bankers Automated Clearing System (BACS).

4.9 It was noted that the payroll report does not show evidence of having been checked and authorised for payment. However, the BACS report as submitted to the bank is retained on file and contains the required two signatures as evidence of authorisation. As an additional control we recommend that the payroll report itself should also be signed and dated by the Head of Corporate Services or the Chief Executive as evidence of having been checked and authorised.

*Refer Action Plan Point 4*

## Audit trail

4.10 It is important for a complete audit trail to be maintained. The trail should allow an item to be traced from input through to its final resting place and should allow the final result to be broken down into its constituent parts. We noted that the Sage accounting software is designed to produce a satisfactory audit trail, which is retained on the system.

4.11 However, we noted that there are no written procedures in place regarding the use of the audit trail facility and there does not appear to be any arrangements for regular review of the audit trail by a senior official. This is an important control, as it will confirm that documented procedures are being complied with or highlight controls may require to be strengthened. We recommend that arrangements be put in place for the audit trail to be reviewed by a senior official on a regular basis.

*Refer Action Plan Point 5*

4.12 To enable items to be readily traced it is important for input documentation to be filed sequentially. Out of the sample of thirty referred to at paragraph 4.4 above, we found five transactions where there was no input voucher on the main file. It emerged that the transactions in question related to payroll and the relevant voucher, in the form of a payroll output report, was held in a separate payroll file. In such instances, in order to provide a full audit trail and make the location of the originating document easier for the Authority's staff, we recommended that the main file contain an appropriate cross-reference to the payroll file

*Refer Action Plan Point 6*

4.13 We would expect a comprehensive audit trail to includes details of the users of the system against each transaction. This would help identify which users were responsible for particular transactions should it be necessary to investigate any matter. It appears that the Sage accounting software used by the Authority does not include this information on the audit trail, and we recommend that the possibility of including this facility be investigated.

*Refer Action Plan Point 7*