



Cairngorms National Park Authority

Review of Internal Controls 2015/16

Prepared for Cairngorms National Park Authority

March 2016

Key contacts

Asif A Haseeb, Engagement Lead

ahaseeb@audit-scotland.gov.uk

Kyle McAulay, Lead Auditor

kmcaulay@audit-scotland.gov.uk

Adrian Kolodziej, Senior Auditor

akolodziej@audit-scotland.gov.uk

Audit Scotland

4th Floor (South Suite)

8 Nelson Mandela Place

Glasgow

G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Asif A Haseeb, Engagement Lead, Audit Scotland is the appointed external auditor of Cairngorms National Park Authority for the period 2011/12 to 2015/16.

This report has been prepared for the use of Cairngorms National Park Authority and no responsibility to any member or officer in their individual capacity or any third party is accepted.

Contents

Summary.....	3
Audit Findings.....	4
Appendix 1: Action plan.....	7
Appendix 2: Key Controls Coverage.....	10

Summary

Introduction

1. We are required by auditing standards to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan the audit and develop an effective financial statements audit approach. The Chief Executive of Cairngorms National Park Authority ("CNPA" or the "Park Authority") is required, as the Accountable Officer, to maintain a sound system of internal control.
2. We seek to gain assurances that the Park Authority:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements and the effective management of assets and liabilities
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.

Summary of findings

3. We have tested the key controls operating within the financial systems of Cairngorms National Park Authority to ensure that they are operating satisfactorily.
4. Following our audit we concluded on the operation of the key controls and, where weaknesses were identified, we noted the impact they have for our planned financial statements audit in Appendix 1.
5. Appendix 2 sets out the key controls reviewed within each of the main financial systems and conclusions from our review.
6. Our overall conclusion is that the Park Authority's internal controls for the General Ledger, Payroll, Trade Payables, Trade Receivables and Cash & Banking systems tested operate effectively and this allows us to take planned assurance on these systems for the audit of the 2015/16 financial statements.

Acknowledgement

7. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The high level of assistance and co-operation we received during the course of the audit is gratefully acknowledged.

Audit Findings

Systems of internal control

8. Our audit approach included testing the following key financial systems:
 - General Ledger
 - Payroll
 - Trade Payables
 - Trade Receivables
 - Cash and Banking.
9. We will perform substantive testing of the capital accounting system during our financial statements audit. We adopted this approach given the small number of transactions which are processed in the respective system during the year.
10. To obtain controls assurance, we reviewed the key controls in the above mentioned financial systems during our visit at CNPA in February 2016. We identified and assessed the risks inherent in these financial systems. We also assessed the adequacy of the controls in place to address those risks and the extent to which they reduce them to an acceptable level. In accordance with International Standard on Auditing (ISA 330), para 14 and 15, our audit judgements are based on current year testing of controls and, where appropriate, prior year results.

Key Findings

11. We did not identify any significant risk exposure or major weaknesses in the internal controls during our review. However, we identified the following issues which, if addressed, could further strengthen internal control:
 - **General Ledger:** Journals processed by the Finance Manager have not been authorised. Journals should be checked by a second officer for accuracy. This issue was highlighted last year, however management feel that this control is not required as this is a low risk area. We will undertake additional substantive testing of journals during our financial statements audit.
 - **Payroll:** Exception reports are not produced for the payroll system. We were informed that instead the Corporate Support Officer manually reviews all payslips on a monthly basis. This is then compared to previous month to identify any variances that require to be investigated prior to processing the payroll. However, there is no record kept of this check having been carried out. The check should be signed by the officer carrying out the review and reviewed by another officer.

Refer to Appendix 1, Action Plan Point 1
 - **Payroll:** Monthly spot checks are carried out by HR to confirm the validity of employees on the payroll. The check for November was carried out more than six weeks after the month end. Checks should be carried out on a timely basis to identify

any issues with validity of employees on the payroll with appropriate action taken where necessary.

Refer to Appendix 1, Action Plan Point 2

- **Trade Payables:** We sample tested 10 changes to supplier bank details. As per an audit recommendation and management agreement last year, CNPA staff are required to document who the change has been verified with. However, there was no evidence on the 10 supplier bank details forms tested that these have been verified prior to being processed by staff. Whilst staff advised they do verify all bank changes using standing contact details, this process should be clearly evidenced.

Refer to Appendix 1, Action Plan Point 3

- **Trade Payables:** We sample tested six purchase invoices and identified that three purchase invoices were signed off by officers who do not have authority per the scheme of delegation. Management have advised that these officers do have authority to approve invoices and that the scheme of delegation needs to be updated. The scheme of delegation should be updated to reflect officers who have authority to approve invoices for payment.

Refer to Appendix 1, Action Plan Point 4

- **Trade Receivables:** There is no formal procedure for raising a sales invoice. Instead, staff are expected to approach the Finance Team when an invoice is required. We note, that much of CNPA's income comes from project contributions from

third parties, which are low risk. However, it would be good practice to have a formal procedure in place for raising a sales invoice.

Refer to Appendix 1, Action Plan Point 5

- **Trade Receivables:** We sample tested 10 sales invoices and found that 8 invoices were not signed and dated by the officers preparing and reviewing the invoice. All sales invoices should be signed by the officer raising the invoice and the authorising officer to evidence that a review has taken place.

Refer to Appendix 1, Action Plan Point 6

- **Cash and Banking:** The bank authorisation mandate for opening and closing bank accounts contains signatories who are no longer employees of the Park Authority and therefore is out of date. The mandate should be updated to include only authorised signatories who are employees of the Park Authority.

Refer to Appendix 1, Action Plan Point 7

- **Cash and Banking:** The Park Authority opened a new bank account during the financial year. One of the requirements of the bank authorisation mandate is for the request to be signed by both the Director of Corporate Services and another authorised signatory. However, the request was not signed by the Director of Corporate Services, instead, it was signed by two other approved signatories. The Park Authority should ensure that changes to bank accounts are authorised in line with the bank authorisation mandate.

Refer to Appendix 1, Action Plan Point 8

12. The issues identified in preparing this report are only those which have come to our attention during the course of the review and are not necessarily all risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to the Park Authority. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

Internal Audit

13. Internal audit is provided by KPMG LLP, however, their contract comes to an end on 31 March 2016. From 2016/17 onwards, internal audit services will be provided by BDO International. Internal audit supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of any weaknesses to management for action.
14. Audit Scotland's Code of Audit Practice (the "Code") sets out the wider dimension of public sector audit. The Code requires external auditors to carry out an annual assessment of the adequacy of the internal audit function.
15. Also, based on this assessment we can place formal reliance on areas of internal audit work in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit).
16. Where it can be demonstrated that internal audit objectives are similar to those of external audit, the findings/results of internal audit exercises can be considered when determining the nature and extent of planned external audit coverage. This ensures that audit resources are used in the most efficient way and work is not unnecessarily duplicated.
17. In our Annual Audit Plan, we proposed to place formal reliance on internal audit's review of payroll administration. Having undertaken the review of internal audit's work on payroll administration, no issues were identified and we were able to place formal reliance in this area. In terms of our wider Code of Audit Practice responsibilities, we planned to place reliance on a number of other areas of internal audit's work (refer to Annual Audit Plan, paragraph14).
18. We have now completed our assessment of the internal audit function provided by KPMG LLP. This included a review of the range and quality of work carried out by internal audit. Overall we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.
19. We will continue to monitor and review completed internal audit assignments to ensure that work on which we are placing reliance has been delivered. Any failure to complete areas where formal reliance has been agreed could impact on our plan and agreed audit fee.

Appendix 1: Action plan

The table below sets out the recommendations to improve the control environment:

No.	Recommendation	Responsible Officer	Management response/planned action	Target date
1	<p>Payroll – Exception Reporting</p> <p>Management should ensure that the manual monthly payroll review is formally documented as evidence that the review has been carried out. The document should be signed and dated by both the preparer and reviewer.</p>	Corporate Support Officer	We will document monthly exception analysis with effect from April 2016 payroll onwards.	April 2016
2	<p>Payroll – Validity of Employees on Payroll System</p> <p>Management should ensure that the monthly spot check is carried out on a timely basis with appropriate action taken where necessary.</p>	Head of Organisational Development	This finding relates to a one-off delay in process rather than a weakness of regular delay. We will make sure that appropriate back up arrangements are in place with the Director of Corporate Services and HR Support Officer each capable of undertaking spot checks in absence of Head of Organisational Development.	April 2016

No.	Recommendation	Responsible Officer	Management response/planned action	Target date
3	<p>Trade Payables – Supplier Bank Details</p> <p>Management should ensure that the supplier bank details change form documents details of the person with whom they have verified the change of details. This should be also signed and dated by the officer making the change.</p>	Finance Manager	Action agreed and changes to be implemented will be reinforced by Finance Manager.	Immediate – March 2016
4	<p>Trade Payables – Invoice Authorisation</p> <p>The scheme of delegation should be updated to reflect officers who have authority to approve invoices for payment.</p>	Finance Manager	Action agreed.	April 2016
5	<p>Trade Receivables – Sales Invoice Request Procedure</p> <p>Management should implement a formal sales invoice request procedure as a matter of good practice.</p>	Finance Manager	Action agreed.	May 2016

No.	Recommendation	Responsible Officer	Management response/planned action	Target date
6	<p>Trade Receivables – Invoice Authorisation</p> <p>All sales invoices should be signed by the officer raising the invoice and the authorising officer to evidence that a review has taken place.</p>	Finance Manager	We will implement a procedure to ensure that all sales invoices are approved by two appropriate officers.	May 2016
7	<p>Cash and Banking – Bank Authorisation Mandate</p> <p>Management should update the bank authorisation mandate to include only authorised signatories who are employees of the Park Authority.</p>	Finance Manager	Action agreed.	April 2016
8	<p>Cash and Banking – Changes to Bank Accounts</p> <p>The Park Authority should ensure that changes to bank accounts are authorised in line with the bank authorisation mandate.</p>	Director of Corporate Services	This instance again was a one off. However, we will reinforce the applicability of existing processes which require the Director of Corporate Services to approve all bank account opening.	Immediate – March 2016

Appendix 2: Key Controls Coverage

The table below sets out the key controls that were tested as part of our audit work:

Key Controls Reviewed	Conclusion
General Ledger	
Access to the general ledger system is restricted to appropriate personnel.	Satisfactory
Changes to the chart of accounts are requested on a standard form and approved prior to implementation	Satisfactory
Journals can only be approved by authorised staff.	Satisfactory
Unusual or unidentified transactions are investigated and correct regularly.	Satisfactory
Trial Balances are produced and reviewed for reasonableness by a person within the finance function with appropriate authority.	Satisfactory
A sound system of exception reporting exists. Such reports are promptly investigated and appropriate action taken where necessary.	Satisfactory
Payroll	
Human resources and payroll functions are adequately segregated.	Satisfactory
Employing departments periodically confirm the validity of the employees listed on the payroll.	Refer to Appendix 1, Action Plan Point 2

Key Controls Reviewed	Conclusion
New starters are processed by payroll staff only on receipt of a documented request from human resources (HR) on a standard form. This should be authorised by the HR manager to confirm the details are correct.	Satisfactory
Standard forms are completed to record staff leaving the organisation. This details the leave date, the notice period and any annual leave owing or funds owed to either party. The form is completed by HR and authorised by the HR manager. This is passed to payroll who process the request.	Satisfactory
Staff independent of those processing payroll input check all new starter and leaver output to authorised source documents.	Satisfactory
Adequate exception reports are produced and evidently followed up independently of those involved in processing input.	Refer to Appendix 1, Action Plan Point 1
Access to the payroll system is restricted to appropriate staff.	Satisfactory
Checks exist to ensure that increases in salary or rates of pay, following national settlements or increment dates have been correctly implemented.	Satisfactory
Staff independent of those processing payroll changes checks permanent and temporary changes to authorised source documents.	Satisfactory
Adequate control totals are established prior to payroll processing and reconciled to output control totals.	Satisfactory
The payroll system is regularly reconciled to the HR system, reviewed by a manager on a timely basis, signed as evidence of review and retained.	Satisfactory

Key Controls Reviewed	Conclusion
Trade Payables	
Access to the accounts payable system is restricted to appropriate personnel.	Satisfactory
Changes to suppliers' bank details are subject to confirmation prior to processing.	Refer to Appendix 1, Action Plan Point 3
Purchase invoices are checked for accuracy before being approved for payment by an authorised person.	Refer to Appendix 1, Action Plan Point 4
Payments are only made to suppliers upon receipt of an authorised invoice.	Satisfactory
BACS payment run is prepared by one person and approved by an authorised individual.	Satisfactory
The purchase ledger is regularly reconciled to the aged creditors' listing, reviewed by a manager on a timely basis, signed as evidence of review and retained.	Satisfactory
A sound system of exception reporting exists. Such reports are promptly investigated and appropriate action taken where necessary.	Satisfactory - whilst exception reports are not present, there are mitigating controls.
Trade Receivables	
Access to the accounts receivable system is restricted to appropriate personnel.	Satisfactory
Invoices and credit notes are authorised prior to being raised, and are supported by appropriate documentation.	Refer to Appendix 1, Action Plan Point 5 and 6
Payments received are allocated to the correct customer through the use of remittance advice slips or references quoted on BACS payments.	Satisfactory

Key Controls Reviewed	Conclusion
A formal debt write off process is in place and is documented which covers the stage at which write offs can be completed, frequency of write offs, who can authorise write offs and how they are to be processed.	Satisfactory
The sales ledger is regularly reconciled to the aged debtors' listing, reviewed by a manager on a timely basis, signed as evidence of review and retained.	Satisfactory
A sound system of exception reporting exists. Such reports are promptly investigated and appropriate action taken where necessary.	Satisfactory - whilst exception reports are not present, there are compensating controls.
Cash & Banking	
Closure and opening of bank accounts is adequately controlled.	Refer to Appendix 1, Action Plan Point 7 and 8
Reconciliations between the bank general ledger accounts and the bank statements are carried out on a timely basis. Reconciling items are identified and followed through to subsequent bank statements. Adjustments to the general ledger are made as necessary. Bank reconciliations and supporting documentation are reviewed on a timely basis by management and review is evidenced.	Satisfactory
Access to the on-line banking and finance systems are restricted to appropriate staff.	Satisfactory