



Cairngorm National Park Authority
Review of Financial Controls
Internal Audit 2007/08
November 2007
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Section 1 - Executive summary

1.1 Introduction

This internal audit of financial controls is part of our coverage of financial areas as required in the audit plan approved by the Audit Committee. **Appendix A** shows the detailed scope and objectives of our review.

1.2 Background

The Cairngorm National Park Authority has established formal financial regulations in place. The Finance department undertook a process of financial control self-assessment during 2006/07 at the request of internal audit. This exercise identified eight key control areas relevant to financial reporting and budgetary control. Cairngorm National Park Authority determined that these were both adequate in their design and effective in their operation, with some minor exceptions requiring improvement. The results of the self-assessment have been previously reported to the Authority's Audit Committee.

Financial controls are standards, established by management that are intended to ensure the accuracy, timeliness, and completeness of financial data as well as compliance with prevailing policies and regulations. In addition, financial controls help to prevent or detect erroneous or inappropriate transactions. These standards involve people performing certain procedures, computer controls and monitoring reports.

Documents of original entry such as invoices and records upon which transactions are entered (like purchase orders) are important elements of a financial system. Being able to trace transactions from the general ledger to the source document is important to verify the validity and correctness of a transaction. Documents and records help to provide reasonable assurance that all assets are properly controlled and all transactions are correctly recorded.

Our focus in this financial controls review was to assess the controls in place over the completeness, accuracy and validity of the information contained within the Cairngorm National Park Authority general ledger.

1.3 Approach

Through discussion with management we identified any changes to the control environment since the self-assessment exercise was completed. We then tested the effectiveness of key controls on a sample basis to assess the adequacy of the financial controls in operation.

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 area:

Audit areas	Overall Assessment	Report Ref.
Purchase ordering	****	
Accounts payable	***	2.6
Accounts receivable	****	
Cash/treasury management	***	2.2
Fixed assets	***	2.3
Payroll	***	2.1; 2.4; 2.5
General ledger	***	2.4; 2.5
Finance IT systems control	***	2.7

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)

Our detailed findings and recommendations are within **Section 2** of this report. In total, we identified **seven** 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	0
Important issues which should be addressed by management in their areas of responsibility	2	3
Minor issues where management may wish to consider our recommendations	3	4
	Total	7

1.5 Conclusion

In overall terms, the control environment over the financial controls of the organisation is effective, however a number of control gaps were identified, particularly in the areas of access and password controls to financial systems, formal recording of cheque income and recording of fixed assets. The key findings were as follows:

Our key findings are as follows:

- Only one member of staff has a user account with access to the payroll system. In their absence another member of staff would log on using the same account. *(Recommendation 2.1);*
- Cheques received in the post are not recorded in the incoming mail book. *(Recommendation 2.2);*
- The fixed asset register has no detail of the location or responsible individual for each asset. *(Recommendation 2.3);*
- Payroll journals are processed on a monthly basis with no review or authorisation. *(Recommendation 2.4);*
- Payroll accrual journals are posted on a monthly basis with no review or authorisation. *(Recommendation 2.5);*
- The current aged creditors listing contains an item from August 2006 for £6,250, which Cairngorm National Park Authority is unlikely to be required to pay. *(Recommendation 2.6);*
- The Sage general ledger package has no passwords restricting access. *(Recommendation 2.7).*

Section 1 - Executive summary (continued)**1.6 Acknowledgements**

We would like to take the opportunity to thank all of the Cairngorm National Park Authority staff involved in assisting us in this audit. The findings and recommendations in this report were discussed with the Finance Manager and the Head of Corporate Services 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.

Section 2 - Detailed findings and recommendations

2.1 Access to payroll masterfile

Finding	Recommendation	Rationale	
<p>Currently only the Corporate Services' Officer has access to the payroll masterfile. This means that in her absence another member of staff will undertake the payroll processing using her log-on details.</p>	<p>A second appropriate individual should be set-up on the payroll system as cover when the Corporate Services' Officer is unavailable.</p> <p>User accounts and passwords should not be used by more than one member of staff.</p>	<p>The sharing of a user account on a system as sensitive as payroll could allow an inappropriate level of access to confidential staff information.</p> <p>Provides an inaccurate audit trail.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Agreed.</p>		<p>Head of Corporate Services</p> <p>April 2008</p>	<p>Two</p>

Section 2 - Detailed findings and recommendations (continued)

2.2 Cheques received in the post

Finding	Recommendation	Rationale	
<p>Cheques are received along with all other post at the main reception of Cairngorm National Park Authority. However cheques are not recorded in the mail book.</p>	<p>All cheques received in the post should be formally logged in the mail book.</p>	<p>A formal register would provide a detailed listing of all cheques received should their receipt ever be questioned.</p> <p>This procedure would also enhance the segregation of duties that are in place with the small Finance team and provide an additional audit check.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Agreed.</p> <p>Finance Manager (as responsible officer for establishing financial controls) to liaise with appropriate officers in order to establish an appropriate cheque register and procedure for operation.</p>		<p>Finance Manager</p> <p>March 2008</p>	<p>Two</p>

Section 2 - Detailed findings and recommendations (continued)

2.3 Fixed asset register

Finding	Recommendation	Rationale	
<p>The fixed asset register in place within Cairngorm National Park Authority does not include information detailing the physical location of all the assets listed or the members of staff responsible for the safeguarding of each asset.</p> <p>No physical verification checking has been undertaken on the fixed assets of the organisation to ensure that the assets are still within the organisation and still in use.</p>	<p>The fixed asset register should be updated to identify the individual members of staff responsible for each asset and to document the physical location of each asset.</p> <p>An annual programme of fixed asset verification should also be established.</p>	<p>With no detail of where assets are held, who is responsible for them and if the assets are still held within the organisation. Cairngorm National Park Authority has no means of assessing if it still has control of the listed assets with a net book value of £241,726, (balance as at 31st March 2007, previous year end).</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Fixed assets are only those items with a purchase cost in excess of £500 (per item). These items are relatively few in number.</p> <p>There are “informal” verification processes: e.g. if someone has booked use of a pool car, they will report if it is not there. Other fixed assets will similarly be reported if there is any perceived loss.</p> <p>Given the very small scale of the fixed asset register, I am not persuaded that an additional verification procedure is warranted.</p>			Two

Section 2 - Detailed findings and recommendations (continued)

2.4 Payroll journals

Finding	Recommendation	Rationale	
<p>Payroll journals are prepared and posted onto the Sage accounting system on a monthly basis by the Corporate Services' Officer; however these journals are not reviewed by an appropriate individual prior to posting.</p> <p>After the journals have been posted, a payroll reconciliation is undertaken between the payroll system and the general ledger. This reconciliation is prepared by the Corporate Services' Officer and is reviewed and formally signed off by the Head of Corporate Services' prior to the payroll being released.</p>	<p>Payroll journals should be reviewed by an appropriate individual prior to their posting to the general ledger.</p>	<p>To ensure all journal entries are correct and appropriate prior to posting.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>This system already has 2 levels of control: an independently reviewed reconciliation and 2 signatories for the BACS payroll submission. The journals itself is also input by the CS Officer, who is independent from the Finance Manager who will prepare management accounts reports and, through that, will spot any variations from expected expenditure charges made by the journal input. I believe a second signature on the journal form prior to input is likely to be only an artificial control.</p>			<p>Three</p>

Section 2 - Detailed findings and recommendations (continued)

2.5 Payroll accrual journals

Finding	Recommendation	Rationale	
<p>Payroll accrual journals are posted to the ledger each month by the Corporate Services' Officer. These journals reflect the estimated costs incurred for staff that Cairngorms National Park Authority has seconded in from other public sector organisations.</p> <p>On a quarterly basis Cairngorm National Park Authority receives an invoice from the organisation for the total costs incurred. At this point the accrued balance is adjusted for any imbalance and the journal is approved as is the subsequent payment.</p> <p>However, the monthly accrual journals are not approved prior to being posted to the general ledger. These accrual journals are posted by one of the two Finance Assistants or the Corporate Services' Officer.</p>	<p>All payroll journals should be reviewed by a senior member of the Finance or Corporate Services team prior to posting to the general ledger.</p>	<p>With no formal review of the payroll journals the possibility of erroneous entries to the ledger is increased.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>I believe there is a very low risk here. The accrual journals seek to ensure that management accounts are up to date in terms of actual and expected expenditure. The finding itself reflects that fact that these are reviewed and adjusted back to actual on a quarterly basis. The CS Officer post is itself a relatively senior member of the finance team and this level of scrutiny is therefore questionable.</p>			<p>Three</p>

Section 2 - Detailed findings and recommendations (continued)

2.6 Aged creditors

Finding	Recommendation	Rationale	
<p>A review was conducted of the October 2007 month-end aged creditors listing, which contained only one entry. The entry related to a claim for grant funding, of £6,250.</p> <p>Email correspondence between the organisation claiming the funds and the Cairngorms National Park Authority Finance Manager imply the total owed is closer to £671. The balance has been carried in creditors since August 2006.</p>	<p>The organisation claiming the funds should be contacted and an agreement reached as to the amount, if any, that is owed. Any remaining balance should then be removed from the creditors total by the end of the financial year.</p>	<p>If Cairngorms National Park Authority do not owe this amount, then carrying it indefinitely is misrepresenting the outstanding creditors of the organisation.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>The recommendation is slightly odd, in that it reflects what has actually been done: as reflected in the finding, there is email correspondence which reflects that the organisation has been contacted and the amount queried.</p> <p>I do accept that aged creditors should not be carried in the balance sheet indefinitely, but conversely we must also continue to recognise potential liabilities.</p> <p>This will be reviewed as part of the existing finance year end process.</p>		<p>Head of Corporate Services</p> <p>March 2008</p>	<p>Three</p>

Section 2 - Detailed findings and recommendations (continued)

2.7 Sage passwords

Finding	Recommendation	Rationale	
<p>The Sage general ledger accounting package used by Cairngorms National Park Authority has no forced password change requirement in place for user accounts.</p> <p>Eight members of staff have access to Sage, four of these only having read only access. The remaining four staff members are part of the Finance Team. Access to Sage requires that the software package is installed on each machine individually.</p> <p>Windows passwords are in place over all user accounts and are force changed every 30 days. If one of the four unrestricted finance accounts was accessed without authorisation, the individual would have full access to the ledger.</p>	<p>Users currently have their own accounts set up within Sage for audit trail purposes. These accounts should have passwords assigned to them that are force changed on a regular basis.</p>	<p>Unauthorised access to the general ledger could lead to sensitive information such as salary data being compromised. It would also leave the ledger exposed to unauthorised and potentially inappropriate input.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>This has come up in previous audits. As then, SAGE software does not itself have the provision to force password changes. However, in order to gain access to the SAGE login, a user (or hacker) would first have to give a valid network system ID and a valid password to go with that ID (which as stated in the finding, is force changed every 30 days). They then have to give the SAGE user ID and SAGE password.</p>			<p>Three</p>

Section 3 - Statement of Responsibility

Statement of Responsibility

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

The matters raised in this report are only those which came to our attention during the course of our internal audit 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 impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Deloitte & Touche LLP

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November 2007

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Appendix A - Scope and objectives

The Cairngorm National Park Authority (CNPA) has established formal Financial Regulations in operation.

CNPA completed a financial controls self-assessment as part of our 2006/07 internal audit plan.

The self assessment exercise identified that financial management personnel consider the control environment to be effective, with some minor exceptions requiring some improvement, across all areas of key financial control.

The overall objectives of this audit was to assess the key controls in place over the following areas:

- Purchase ordering
- Accounts payable
- Accounts receivable
- Cash/Treasury management
- Fixed assets/ Capital planning
- Payroll
- General Ledger
- Finance IT systems control