

CAIRNGORMS NATIONAL PARK AUTHORITY

FOR DISCUSSION

Title: INTERNAL AUDIT REVIEWS OF FIXED ASSETS AND PAYROLL

**Prepared by: STUART SANDS, DELOITTE
DAVID CAMERON, HEAD of CORPORATE SERVICES**

Purpose

To present Deloitte's reports on their internal audit reviews of payroll and fixed assets conducted as part of their internal audit programme for 2004/05.

Recommendations

The paper is presented for discussion by the Committee and no specific recommendations are made.

Three findings raised by the internal auditors are of a level of significance which Deloitte deem should be brought to the attention of the Audit Committee and these are highlighted in the paper.

Draft management responses have been set out for each of the internal audit findings and recommendations.

The paper also highlights the intention to consolidate audit recommendations into a schedule from which the Committee may review progress as a standing item on its agenda and invites the Committee to consider any other means by which it wishes to engage in the monitoring and review of the internal audit function, and any other information which may be provided to facilitate this process.

Executive Summary

The paper presents Deloitte's reports on their internal audit reviews of payroll and fixed assets conducted as part of their internal audit programme for 2004/05. The internal audit review concludes that the controls in place for the management of the payroll system are adequate while significant weaknesses exist in the current fixed asset system. While the reports highlight a number of key issues to address, the number and relative importance of findings made by the internal auditors are thought by the Head of Corporate Services to be generally in keeping with the current stage of development of the Authority and its internal processes.

INTERNAL AUDIT REVIEWS OF FIXED ASSETS AND PAYROLL

Background

1. The committee considered and agreed an internal audit needs assessment at its meeting in August 2004. The main priority identified at that stage was the establishment of a risk register and consequent development of a risk management strategy. These aspects are covered in a separate paper elsewhere on this agenda.
2. The Head of Corporate Services, Systems Support Manager and Finance Manager met in January 2005 with the internal auditors to agree a schedule of activity to complete their 2004/05 internal audit programme. Items agreed for consideration were:
 - Strategic and Operational Planning processes
 - Project Management and Partnership Working
 - Financial Control: Fixed Assets and Register
 - Payroll
 - Financial Policies and Procedures
3. A progress report of all internal audit activity in 2004/05 to date is presented in Annex 1 to this paper.
4. Fieldwork for reviews of fixed assets and payroll was completed over the week commencing 21 February 2005. Draft reports were received on 8 March from Deloitte and these are reproduced with this paper.
5. The Committee should note that, other than for the text of proposed management responses, reports presented with this paper are as received from Deloitte. While the Finance Manager and Deloitte's field staff discussed general findings, there has not been an opportunity to discuss the detail of the full written reports since their receipt.

Internal Audit Assessment

6. Deloitte assess the importance and priority of their audit findings over three categories:
 - Priority 1: major issues they consider require to be brought to the attention of Management and the Audit Committee.
 - Priority 2: Important issues to be addressed by management in their area of responsibility.
 - Priority 3: Minor issues where management may wish to consider internal audit recommendations.
7. In order to provide a full briefing to the Committee, the complete internal audit review has been reproduced with this paper. Priority 1 areas identified are extracted in the following sections.

Payroll

8. The internal auditors conclude that the controls in place for the management of the payroll system are adequate. They identify seven recommended areas for action to address weaknesses in existing systems. The report of the payroll review is set out at Annex 2 to this paper.
9. One finding is classed as priority 1, requiring the attention of Management and the Committee: “there are no Standing Financial Procedures in place for the organisation including those to govern payroll processes.” The internal auditors recommend that “Standing Financial Procedures should be completed and circulated to finance staff as soon as possible.” (Reference section 2, point 2.1 of annex 2).
10. The draft management response to this finding is as follows:
“As discussed prior to the audit, the need to have Financial Regulations in place has already been highlighted by the external auditors and these will be in place prior to the start of the new financial year.
There are, however, written procedures in place detailing the steps necessary to complete the normal monthly payroll cycle. These have been drafted by the Accounts Officer and, following the Finance Manager’s appointment last year, have been tested by these two members of staff to ensure they are an accurate record of the process.”

Fixed Assets

11. The internal auditors conclude that significant weaknesses exist in the current fixed asset system. These weaknesses could become increasingly problematic with future expansion and two have been classified as priority 1 issues for the attention of the Committee. The report of the fixed asset review is set out at Annex 3 to this paper.
12. The first priority 1 finding effectively replicates that set out in the payroll review: “there are no current Standing Financial Procedures in place for the fixed assets system at present. This is something that is being worked towards”. The internal auditors recommend that “SFP’s should be completed and circulated as soon as possible covering all areas of financial activity”.
13. The draft response to this finding notes its link to the payroll audit and replicates the response to the payroll review in that Financial Regulations will be in place prior to the start of the new financial year.
14. The second priority 1 recommendation states that all assets should be added to the asset register individually, and identifies specific information which should be recorded for each item on the register.
15. The principle of this recommendation is agreed in the draft management response.

General Commentary

16. In broad terms, while the reports highlight a number of key issues to address, the number and relative importance of findings made by the internal auditors are thought by the Head of Corporate Services to be generally in keeping with the current stage of development of the Authority and its internal processes. Many of those systems have been inherited from the Cairngorms Partnership and require review to reflect the changing scale of operations and different funding environment. Findings of both payroll and fixed asset reviews in particular highlight the need to establish overarching financial regulations for the Authority and develop specific procedures based on such regulations.
17. Draft management responses have been set out for each of the internal audit findings and recommendations.
18. One of the seven findings of the payroll review has been challenged as incorrect (ref section 2, point 2.6, annex 2) while the priority attached to a further recommendation has been questioned (ref section 2, point 2.7, annex 2).
19. Of the 9 findings from the fixed asset review, one has been challenged as incorrect (ref section 2, point 2.8, annex 3). It is noted that a further 2 recommendations stem to a great degree from another finding and this appears to “double count” the number of specific matters of concern (ref section 2, points 2.5 and 2.9, annex 3). . The priority attached to a further recommendation has been questioned (ref section 2, point 2.6, annex 3).
20. These issues will be raised with Deloitte, together with any others arising from the Committee’s discussions, prior to finalising the review reports and action plans.

Future Action

21. It is planned that audit recommendations raised are consolidated into a schedule from which the Committee may review progress as a standing item on its agenda.
22. The Committee is also invited to consider any other means by which it wishes to engage in the monitoring and review of the internal audit function, and any other information which may be provided to facilitate this process.

David Cameron
14 March 2005
davidcameron@cairngorms.co.uk