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# Cairngorms National Park Authority

## Financial Controls

### Internal Audit 2010/11

April 2011

Strictly Private and Confidential

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# Cairngorms National Park Authority – Financial Controls

## Executive Summary

### Background

Financial controls are the standards management establish within a financial process 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, automated computer based controls and monitoring reports.

Given the increasing financial constraints on CNPA, it is essential that robust controls are in place across all areas of financial operation. Strong financial controls are essential to ensure that the funds under the management of the Authority are accurately recorded, managed and used for the purposes for which they are intended. This allows reliable management information to be drawn for monitoring and reporting purposes.

Management have established the Financial Management Framework and Regulations to guide and advise staff in the management and control of CNPA funds. There is also support in the form of the Core Accounts Procedure and bite sized Finance Notes to assist staff with day-to-day financial process management.

CNPA is publicly funded with Grant In Aid from the Scottish Government. Grant In Aid is paid to the Authority in monthly instalments, on the basis of a written application from the Authority detailing its evidence of need. The Grant Aid allocation for 2010/11 is £5.415M.

### Scope and Objectives

We have undertaken a key controls review to ascertain the adequacy and effectiveness of the internal control environment in place over the CNPA Financial Controls. This forms part of our annual review of financial areas within CNPA. A full scope has been included at **Appendix A**.

### Approach

Our approach was to document the systems and procedures in operation through discussions with relevant staff and the review of appropriate documentation. Meetings were held with the Finance Manager and Finance Technicians and a review of the relevant procedures undertaken. The key controls were then tested to determine their adequacy and effectiveness.

# Cairngorms National Park Authority – Financial Controls

## Executive Summary

### Overview of Key Findings

Financial Control processes within CNPA offer some scope for improvement, particularly in relation to the review of bank reconciliations. We identified two medium and two low priority findings. The two medium findings arising from our work are summarised below:

- From a sample of six bank reconciliations tested, two showed no evidence of review; and
- From a sample of 15 purchase orders tested, three were incomplete.

Based on the work performed over the control environment across financial controls in CNPA, our overall assessment is that the current design and operation of controls is **Adequate**.

### Summary

The following table summarises our findings by priority and nature. Our detailed recommendations for improvement are shown in the findings section.

Objectives	Total	Priority			
		Very High	High	Medium	Low
General ledger	-	-	-	-	-
Accounts payable	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Purchase ordering	1	-	-	1	-
Financial ledger IT controls	1	-	-	-	1
Capital assets	-	-	-	-	-
Cash / treasury management	2	-	-	1	1
Financial reporting	-	-	-	-	-
<b>Total</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>2</b>

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## Executive Summary

<b>Very High</b>	<i>Fundamental control weaknesses or opportunities identified.</i>
<b>High</b>	<i>Major control weaknesses or opportunities identified or a significant volume of important weaknesses or opportunities identified.</i>
<b>Medium</b>	<i>Important control weakness or opportunities identified or a significant volume of individual control weaknesses.</i>
<b>Low</b>	<i>Minor control weaknesses or improvement opportunities identified, generally of a lower risk nature.</i>

A more detailed explanation of the above priorities can be found at **Appendix B**.

# Cairngorms National Park Authority – Financial Controls

## Findings

Objective – Cash and treasury management			
Finding		Recommendation	Rationale
<b>1 – Bank reconciliations</b>			
<p>The three most recently completed bank reconciliations, at the time of testing, were assessed for the control bank account and the project bank account.</p> <p>From this sample of six, we noted that two showed no evidence of review or date of review, and four had not been dated when they were signed off by the preparer.</p> <p>In addition, one payment of £17.50 had remained on the un-reconciled list since May 2010. Upon investigation we identified that this was a cheque for a staff member's expense reimbursement. Further discussions identified that the cheque would not be cashed and was subsequently cancelled.</p>		<p>Reconciliations should be completed, reviewed and signed off for both bank accounts on a monthly basis, within two weeks of each month end.</p> <p>For each un-reconciled item that remains on the listing for more than two calendar months an investigation into whether they are valid reconciling items should be conducted to ensure they remain valid.</p>	<p>Bank reconciliations confirm the accuracy of cashbook and bank statement entries. They prove the accuracy of the bookkeeping and aid in the identification of discrepancies.</p> <p>A robust reconciliation process is needed to ensure the accuracy of the standing financial data.</p>
Management Response		Responsibility/ Deadline	Priority
<p>Recommendation agreed.</p> <p>All bank accounts are reconciled monthly, within 2 weeks of the month end and reviewed by the Finance Manager prior to the production of monthly management accounts. These accounts are not produced if the bank accounts have not been reconciled. Evidence of review &amp; date has been omitted on some occasions but the bank accounts do reconcile on all occasions.</p>		<p>Finance Manager / June 2011</p>	<p><b>Medium</b></p>

# Cairngorms National Park Authority – Financial Controls

## Findings

Objective – Purchase ordering			
Finding	Recommendation	Rationale	
<b>2 – Invoices posted to correct expenditure code</b>			
<p>We reviewed a sample of 15 expenditure requisition forms, identifying the following:</p> <ul style="list-style-type: none"> <li>• Three did not contain details of the expenditure or budget codes that they were to be coded to. All three have been signed and dated by both the requisitioner and the approver. This section of the form is marked as 'must be completed'.</li> <li>• For one of the three exceptions above, the 'ordered by' section was also incomplete.</li> </ul>	<p>Staff should be reminded that only fully completed expenditure requisition forms will be processed.</p> <p>Incomplete expenditure requisition forms should be returned to the authoriser for completion.</p>	<p>Where incomplete expenditure requisition forms are accepted and processed there is a greater risk that expenditure will be recorded against an inappropriate budget or that inappropriate expenditure is incurred.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Recommendation agreed. The finance system is currently (March / April 2011) being upgraded and the opportunity will be taken to redesign forms and remind staff of appropriate use.</p>		<p>Finance Manager / June 2011</p>	<p><b>Medium</b></p>

# Cairngorms National Park Authority – Financial Controls

## Findings

Objective – Finance IT system controls			
Finding	Recommendation	Rationale	
<b>3 – Force password changes</b>			
<p>The Park uses SAGE Line 50 as its financial management system. A limitation of this software is that it is not technically possible to force users to change their passwords on a periodic basis.</p> <p>Users must first complete a Microsoft Windows login before they can access Sage Line 50. CNPA force changes user Windows passwords every 30 days.</p> <p>CNPA is planning to update its general ledger software to SAGE 200 during 2011.</p>	<p>As part of the proposed software upgrade, CNPA should introduce a system requirement to force change user passwords on a periodic basis.</p>	<p>Unique user login credentials allow a full audit trail to be maintained. Forcing users to change these credentials on a periodic basis strengthens the control in place over the financial management system.</p> <p>Where passwords remain unchanged for an extended period of time there is an increased risk of unauthorised access to the system.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Recommendation agreed.</p> <p>Sage 200 forces regular password changes and this procedure is in place from April 2011.</p>		<p>Finance Manager / April 2011</p>	<p><b>Low</b></p>

# Cairngorms National Park Authority – Financial Controls

## Findings

Objective – Cash and treasury management			
Finding	Recommendation	Rationale	
<b>4 – Authorised signatories</b>			
<p>The list of authorised signatories for BACS differs between the Financial Regulations 2010 and the Core Accounts procedure. The list contained in the Core Accounts procedure is more up to date, containing the names of eight current authorised signatories.</p> <p>The Financial Regulations contain a listing of six authorised signatories. Of the eight named in the Core Accounts procedure, only five are named in the Financial Regulations.</p> <p>The Financial Regulations 2010 state that additions and amendments will be consolidated into the manual annually. There is no reference to a method of recording additional signatories during the year.</p>	<p>At their next review, the authorised signatory list in the Financial Regulations and the Core Accounts should be reconciled.</p> <p>A process for recording and managing up-to-date authorised signatories should be developed.</p> <p>In the interim, staff should be made aware of which is the most up-to-date listing of approved authorisers.</p>	<p>An up-to-date authorised signatory list is key to ensuring that only authorised individuals are able to authorise payments on behalf of the Authority.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>Recommendation accepted.</p> <p>However, it should be noted that only the Management Team, the Finance Manager &amp; two senior members of Corporate Services are authorised signatories. This group will only change with changes in those key personnel so it is marginal how much a list of these staff members will add to transaction control, particularly as all payments are only prepared for authorisation by the same two members of the finance team.</p>		<p>Finance Manager / September 2011</p>	<p><b>Low</b></p>



# Cairngorms National Park Authority – Financial Controls

## Appendix A: Detailed scope

<b>Scope</b>	<p>Given the increasing financial constraints on CNPA, it is essential that robust controls are in place across areas of financial operation.</p> <p>Our focus in this review was to assess the controls in place, intended by CNPA, to ensure that the information contained within the financial system is complete, accurate and valid.</p> <p>The overall objectives of this audit were to assess the key controls in place over the following areas:</p> <ul style="list-style-type: none"><li>• General ledger;</li><li>• Accounts payable;</li><li>• Accounts receivable;</li><li>• Purchase ordering;</li><li>• Financial ledger IT controls;</li><li>• Capital assets;</li><li>• Cash/treasury management; and</li><li>• Financial reporting.</li></ul>
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# Cairngorms National Park Authority – Financial Controls

## Appendix B: Internal Audit Evaluations

**Overall assessment**

Assessment Rating	Description
Substantial	Controls / procedures accord with accepted good practice and are operating to a high standard.
Adequate	The majority of controls / procedures accord with accepted good practice and are operating, although some deficiencies exist which could result in loss or fraud.
Limited	Controls / procedures in place offer scope for considerable improvement and concern is expressed about their adequacy.
Inadequate	The existing control environment requires substantial revision, and results in an unacceptably high risk of the Cairngorms National Park Authority suffering financial and/or reputational loss.

**Standards**

Management should be aware that our internal audit work was performed according to the Institute of Internal Auditors - UK and Ireland standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assessment on any gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

# Cairngorms National Park Authority – Financial Controls

## Appendix B: Internal Audit Evaluations

Priorities	Explanations
<b>Very High</b>	<p><i>Fundamental control weaknesses or opportunities identified.</i></p> <p><i>A “very high” rating reflects significant weaknesses in the systems of internal control or processes for monitoring performance that will undermine the continued operation of the service. As applicable within the audit scope, deficiencies exist with respect to compliance with applicable laws and regulatory or other requirements, Cairngorms National Park Authority policies and procedures, and sound control practices. A “Very High” rating indicates that <u>immediate corrective action is required</u> to reduce exposure to loss of income or assets or to danger to life or injury.</i></p>
<b>High</b>	<p><i>Major control weaknesses or opportunities identified or a significant volume of important weaknesses or opportunities identified.</i></p> <p><i>A “high” rating reflects weaknesses in the systems of internal control or processes for monitoring performance. As applicable within the audit scope, deficiencies exist with respect to compliance with Cairngorms National Park Authority policies and procedures, sound control practices, and/or applicable laws and regulatory or other requirements. A “High” rating indicates that <u>timely corrective action is required</u> to reduce exposure to loss of income or assets or to danger to life or injury.</i></p>
<b>Medium</b>	<p><i>Important control weakness or opportunities identified or a significant volume of individual control weaknesses.</i></p> <p><i>A “medium” rating reflects, based on the results of our limited testing, generally adequate systems of internal controls, processes for monitoring performance and compliance with legal or other requirements as applicable within the audit scope. Operations generally conform to Cairngorms National Park Authority policies and procedures, sound control practices and/or applicable laws and regulatory or other requirements, although minor deficiencies may exist.</i></p> <p><i>A “medium” rating indicates that any deficiencies noted do not significantly impair operational effectiveness, violate policy, law or regulations, or weaken control.</i></p>
<b>Low</b>	<p><i>Minor control weaknesses or improvement opportunities identified, generally of a lower risk nature.</i></p> <p><i>A “low” rating indicates, based on the results of our limited testing, strong systems of internal controls and processes for monitoring performance and compliance with legal or other requirements as applicable within the audit scope. No major control deficiencies or significant volume of weaknesses were noted by our limited testing.</i></p>

# Cairngorms National Park Authority – Financial Controls

## 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 LLP*

*Inverness*

*April 2011*

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