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Cairngorms National Park Authority
Review of Financial Ledger
Internal Audit 2005/2006
March 2006
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Contents   Page

Appendices

Cairngorms National Park Authority – Internal Audit 2005/06
Review of Financial Ledger

Section 1 - Executive summary

1.1 Introduction

This review of Financial Ledger is part of our coverage of core 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

Cairngorms National Park Authority (CNPA) uses the Sage Accounting system. Two separate ledgers are maintained within Sage, one for core funds (those that relate to the operational plan, and central costs such as Board fees, staff costs and accommodation) and one for project funds. Each ledger is managed by a finance processing officer, who are overseen by the Finance Manager. The core ledger has recorded approximately 1300 invoices at a total value of £1.3m in this financial year. This gives an average value per invoice of £985. The project ledger has recorded approximately 360 invoices this year at a total value of £351k. This gives an average value per invoice of £974.

Financial procedures were finalised in January and have been made available to all staff on the shared network.

The main transactions in Sage relate to the payment of invoices. All invoices are recorded on a spreadsheet when they arrive in the office. These are stamped and issued to the relevant Head of Group for authorisation. All core invoices are then passed to the Finance Manager for further authorisation prior to processing in the ledger. All project invoices are authorised by the relevant Project Manager prior to ledger entry. All transactions in Sage are allocated a number when input. This number (sequentially assigned) is used as the basis for filing of all transaction documentation relating to ledger input.

The ledger is password controlled and only the Finance Manager and processing staff have full user access. A number of member of the senior management team have read only access and the IT Manager has IT access rights.

Month end procedures are performed on the 10th of the month by the finance processing staff and a processing checklist is completed. Bank reconciliations are performed by finance processing staff and each staff member performs the others reconciliation, e.g. project officer performs core reconciliation and vice versa. These reconciliations are reviewed and signed off by the Finance Manager as evidence of review. Monthly income and expenditure reports are issued to the Management Team as part of the month end process. The Finance Committee are updated on a quarterly basis as to financial progress. Finance Committee minutes and papers are forwarded to all Board members. Updates are issued to members as appropriate between formal meetings, and particularly over the final quarter of the year.

Journal entries are performed by finance staff and authorised by the Finance Manager. All back up is held as part of the audit trail.

All staff are allocated a network password and those who are identified as Sage users have a username and password. A back up is performed on a daily basis by the Finance Department to the organisation's shared drive. A daily server back up is performed by the IT Manager.

Section 1 - Executive summary (continued)

1.3   Approach

The following approach was used in order to complete this review:

- Discussions were held with the Finance Manager and processing staff to document the systems in place regarding input to ledger, journal authorisation, use of suspense accounts, ledger security and financial reporting;

- An evaluation of mitigating controls against risks was performed in order to identify key controls and areas that were subsequently tested.

1.4   Conclusion

The following table details our overall assessment of the control environment against each audit objective:

Objectives	Overall Assessment	Report Ref.
All transactions of the organisation are recorded	****	
All input to the financial ledger is complete, accurate, timely and valid	***	**2.4**
All journals within the financial ledger are authorised and documented	***	**2.1**
Output from the ledger is controlled, secure, timely and appropriate to need	***	**2.2**
Data within the financial ledger is secure and free from risks of loss or corruption	***	**2.7**
The structure of the financial ledger reflects the information needs of the organisation	***	**2.3**
Financial reports reflect actual financial position and contain appropriate supporting information	***	**2.5; 2.6**

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.

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Section 1 - Executive summary (continued)

1.4   Conclusion (continued)

In overall terms, the control environment is generally adequate, although we have identified certain weaknesses that require improvement. These were as follows:

- From a sample of 20 journal entries selected for testing, 15 had not been authorised by the Finance Manager and 11 did not have appropriate back up attached. In addition, it was noted that the Finance Manager authorised his own journal entries. *(Recommendation 2.1)*;
- One bank reconciliation from September could not be located, as bank reconciliations are not filed. In addition, one case was noted in January where the bank reconciliation calculation did not accurately reflect the back up ledger information. This had been signed off as reviewed by the Finance Manager. *(Recommendation 2.2)*;
- The accounting system is not closed down and reopened in the new accounting period as part of the month end procedure. *(Recommendation 2.3)*;
- Balances totalling approximately £8,600 have been sitting in project and core suspense accounts since July 2005. *(Recommendation 2.4)*;
- There are no journal or exception reports produced from the accounting system. *(Recommendation 2.5)*;
- The Finance Manager's review of the trial balance is performed on an informal basis and is not signed off and filed as part of the month end process. *(Recommendation 2.6)*;
- IT back ups to the shared drive are not named so that they are easily identifiable by date.   Also daily server back up tapes are held at the IT Manager's home. Finance staff did not have copies of the IT security policy. Finally, the Sage accounting system does not require staff to change passwords. *(Recommendation 2.7)*.

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	5
Minor issues where management may wish to consider our recommendations	3	2
Key		**7**

1.5   Acknowledgements

We would like to take the opportunity to thank all of the CNPA staff involved in assisting us in this audit. The findings and recommendations in this report were discussed with the Head of Corporate Services at the conclusion of our fieldwork.

Section 2 - Detailed findings and recommendations (continued)

2.1 Journal Entries

Finding	Recommendation	Rationale
All journals are input to the ledger by the Finance Processing staff and authorised by the Finance Manager. All back up documentation is held on file as part of the audit trail in the finance department. The following issues were noted during testing: • 15 of the 20 journals selected for testing had not been authorised by the Finance Manager. 6 of these related to visa card and petty cash reimbursements totalling almost £1,000.00. • 11 of the 15 journals selected for testing did not have appropriate back up attached.	All journal entries, which are created by finance processing staff, should be authorised by the Finance Manager.	There is a risk of unnecessary or inappropriate journal entries being made

Management Response		Responsibility/ Deadline	Priority
Recommendation agreed and action initiated following audit exit meeting.		Head of Corporate Services to finalise revised procedures by end September 2006.	Two

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Section 2 - Detailed findings and recommendations (continued)

2.2   Bank Reconciliations

Finding	Recommendation	Rationale
Bank reconciliations are completed as part of the month end procedure by finance processing staff for the core and project accounts. The Finance Manager checks and signs off the reconciliations as confirmation that they have been checked. Bank reconciliations for both project and current accounts from September 2005 to January 2006 were obtained and calculations reperformed. The following issues were noted: • Bank reconciliations are not presently filed and the core account reconciliation for September could not be located. • The amount on the bank reconciliation memo for the core account for December 2005 stated that the amount in the trial balance to be reconciled was £69,464.64. Following a reperformance of the reconciliation using the source documentation, it was apparent that the figure on the memo was documented in error and the actual trial balance figure was £64,464.64. This memo had been signed off by the Finance Manager as confirmation that it had been checked. • Bank reconciliations for January had not been	The Finance Manager should review bank reconciliations and only sign off when the reconciliation has been performed to source data. All bank reconciliations should be appropriately filed when reviewed.	Discrepancies in the ledger information and bank statement may not be identified.

signed as evidence of review by the Finance Manager.		
Management Response	**Responsibility/ Deadline**	**Priority**
Recommendation agreed.	Finance Manager to finalise revised procedures by end September 2006.	Two

Section 2 - Detailed findings and recommendations (continued)

2.3   Month End Procedures

Finding	Recommendation	Rationale
There is a month end procedure in place and processing staff have a checklist of duties to complete. However, there is no official shut down of the accounting system between one accounting period and the next, although the Sage system does have this facility. Therefore, after month end procedures have been completed, it is dependent on the processing staff ensuring that they enter all information in the correct period.	The accounting system should be closed down as part of the month end procedures and reopened for the new accounting period. As a result, it would not be possible to enter balances in the previous accounting period without performing a journal entry.	Information may not be accurately reflected in the correct accounting period, leading to inaccurate financial reporting. Regular errors that are picked up may result in an increased number of corrective journals being entered.

Management Response		Responsibility/ Deadline	Priority
Recommendation agreed.		Finance Manager to finalise revised procedures by end September 2006.	Two

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Section 2 - Detailed findings and recommendations (continued)

2.4   Suspense Accounts

Finding	Recommendation	Rationale
CNPA use 3 main suspense accounts, the creditors' project suspense account, the creditors' core suspense account and the mispostings account. At the time of our review, there was a total of £8,624 outstanding in the 2 creditors' accounts. £8,280 related to an £8,000 contribution to a deer-culling programme, which is to be reversed once the final 2004/05 expenditure has been completed. The remaining £280 relates to the finance of a balloon launch. There have been discussions as to whether this should be funded by the Integrated Grant Programme or by core expenditure. The remaining £344 relates to 5 minor balances, 2 of which were in the suspense account waiting for a new code to be set up. This has now been completed; however, the balances have still to be reversed.	The Finance Manager should ensure that all suspense accounts are regularly reviewed and are cleared on a monthly basis. Any balances in the suspense account which require new codes created, should be reversed as soon as the code is set up. This should be within the month that the entry is made to the suspense account.	Balances may not be accurately reflected in the correct accounting period that can lead to inaccurate financial reporting.

Management Response		Responsibility/ Deadline	Priority
Recommendation agreed.		Finance Manager to finalise revised procedures by end September 2006.	Two

Section 2 - Detailed findings and recommendations (continued)

2.5   Financial Reporting

Finding	Recommendation	Rationale	
Management are provided with income and expenditure reports on a monthly basis. These are produced as part of the month end procedure. However, there are no other reports produced from Sage.	Monthly journal and exception reports should be generated and independently reviewed to ensure that all journals are appropriate and that there are no significant changes from month to month. This should include an ageing creditor report to identify any outstanding debts over 30 days.	Exceptional circumstances during each accounting period may not be identified.	
Management Response		**Responsibility/ Deadline**	**Priority**
Recommendation agreed.		Head of Corporate Services and Finance Manager to agree schedule of month-end control reports by end November 2006.	Three

Section 2 - Detailed findings and recommendations (continued)

2.6   Trial Balance Review

Finding	Recommendation	Rationale
The Finance Manager stated that he does review the trial balance on a monthly basis. However, this is performed on screen and is not signed off and filed. Processing staff do print a trial balance as part of the bank reconciliation process; however, this is to obtain the current account balance to reconcile to the statement. This is not reviewed in full.	The trial balance should be printed, reviewed, signed off and filed as part of the month end process. The Finance Manager should assume responsibility for this process.	Without evidence of review, there is no guarantee that all variances are identified and investigated.

Management Response		Responsibility/ Deadline	Priority
Recommendation agreed.		Finance Manager to finalise revised procedures by end September 2006.	Two

Section 2 - Detailed findings and recommendations

2.7 IT Security

Finding	Recommendation	Rationale
From discussions with Finance and IT staff, it was noted that finance processing staff perform a daily back up to the S drive; however, the date of the back up is not documented as part of the back up title. There is also no prompt within Sage to change passwords on a regular basis. There is no character length of password or format that should be used. Discussions with staff and observation of practice also noted that it is possible to access Sage on any PC with any log in, as long as it is loaded on that machine. This does not require the user to log off and re-enter network password. Finance staff did not have a copy of and could not demonstrate an awareness of the IT security policy.	Finance processing staff should ensure that the title of the daily back up performed includes the date that the back up was taken. The Sage system should be amended so that users are prompted to change passwords on a monthly basis. Finance staff should be provided with a copy of the IT security policy. They should be aware of IT security issues and aware of procedures regarding back ups and password changes.	Inappropriate access to financial information may be granted if password information is inappropriately obtained. In addition, the present IT security processes could result in a total loss of information in the event of an emergency with the server.

Management Response		Responsibility/ Deadline	Priority
Recommendation agreed.		Finance Manager to finalise revised procedures by end September 2006, liaising with Business Services and Information Systems Managers.	Three

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.

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Appendix A - Scope and objectives

Scope

Good financial planning, financial management and reporting are achieved through a sound system of control within the financial ledger. Our review will assess the controls in place to ensure the validity, timeliness and completeness and accuracy of entries to the financial ledger. Additionally, we will assess the controls in place to ensure the accuracy and completeness of reporting to management and the Board.

Objectives

Accordingly, the control objectives of this audit will be to assess the controls in place to ensure that:

- All transactions of the organisation are recorded;

- All input to the financial ledger is complete, accurate, timely and valid;

- All journals within the financial ledger are authorised and documented;

- Output from the ledger is controlled, secure, timely and appropriate to need;

- Data within the financial ledger is secure and free from risks of loss or corruption;

- The structure of the financial ledger reflects the information needs of the organisation;

- Financial reports reflect actual financial position and contain appropriate supporting documentation

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Appendix B - Personnel interviewed

- **David Cameron – Head of Corporate Services**

- **Denby Pettitt – Finance Manager**

- **Mandy Matheson – Finance Assistant**

- **Diane Buchan – Finance Assistant**