

Cairngorms National Park Authority

Key Controls Report



Prepared for Cairngorms National Park Authority
April 2013

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Contents

Audit Findings	4
Introduction	4
Systems of Internal Control	4
Key Findings	5
Internal Audit	5
Acknowledgement	6
Appendix 1	7
Appendix 2	8

Audit Findings

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 the Cairngorms National Park Authority (CNPA) is required, as the Accountable Officer, to maintain a sound system of internal control.
2. We seek to gain assurances that the audited body:
 - 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 interests
 - 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.

Overall conclusion

3. Our overall conclusion is that the CNPA's internal controls for the systems tested operate effectively and this allows us to take planned assurance on these systems for the audit of the 2012/13 financial statements. We identified a small number of minor housekeeping issues outlined in [Appendix 1](#).

Systems of Internal Control

4. Our audit approach included planned controls assurance on the following key financial systems:
 - general ledger
 - trade payables
 - cash income and banking
 - payroll.
5. We will perform substantive testing of the capital accounting and trade receivable systems during our financial statements audit. We adopted this approach given the small number of transactions which are processed in the respective systems during the year.
6. To obtain our controls assurance, we reviewed the key controls in the above mentioned financial systems during our visits in January and February 2013. 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.

Key Findings

7. 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](#). A high level summary of our main findings is also provided below.
8. [Appendix 2](#) sets out the key controls reviewed within each of the main financial systems and conclusions from our review.
9. We did not identify any significant risk exposure or major weaknesses in internal controls during our review and we can therefore take assurance from these systems for our audit of the 2012/13 financial statements. However, we identified the following minor housekeeping issues:
 - Bank and trade payables reconciliations were not always dated.
 - One out of 15 BACS payments sampled was not evidenced for segregation of duties.
10. We also noted that changes to suppliers' were not evidenced as confirmed with the suppliers using independent source of contact details. Such changes are not common and there was only one change made in the last year. We have been advised that staff would always contact the supplier by phone using the existing contact details. Management should ensure that evidence of this verification is retained on file.
11. In addition to the above issues, we noted a lack of segregation of duties in the payroll system, with the same member of staff having access to edit functions in the HR and payroll side of the system. Segregation of duties is a key control to prevent errors and fraudulent activity. However, taking into account the small size of the organisation and mitigating controls being in place (i.e. all changes in payroll are subject to a review by staff independent of those processing payroll input), we concluded that separating these functions would not be practical for the Park Authority.
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 CNPA. 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 as a result of a joint procurement exercise with Loch Lomond & The Trossachs National Park Authority. 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. Our Annual Audit Plan, issued in January 2013, explains that auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. Where it can be demonstrated that the means of achieving internal audit objectives

are similar to those of external audit, the findings and 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.

15. In the Annual Audit Plan we indicated that we will place formal reliance on the work of internal audit, in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit), on selected aspects of their testing of the key financial controls in the following financial systems:
 - General ledger
 - Trade payables
 - Cash and cash equivalents
 - Payroll
16. We also planned to carry out a review of the adequacy of the internal audit service provided by KPMG LLP. However, at the time of preparing this report, we have not yet received all required evidence to conclude whether the internal audit operates in accordance with government's internal audit standards (GIAS).
17. In addition, at the time of preparing this report, the detailed internal audit working papers were not available for our review. We will continue to work with internal audit to obtain access to their working papers and consider the implications of their findings for our financial statements audit.

Acknowledgement

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

Appendix 1

Risk Areas and Planned Management Action

No	Issue identified	Client Response	Audit Impact
1	<p>Reconciliations</p> <p>Bank, cashbook and trade payables reconciliations were not always dated. However, they were signed to evidence their preparation and review.</p> <p><i>There is a risk that the reconciliations are not prepared and reviewed (and hence differences identified) in a timely manner.</i></p>	<p>While we believe this to be a very minor matter in terms of overall strength of control systems, we will issue a reminder to staff to date both preparation and review of reconciliations.</p>	<p>No additional audit work proposed, however we will monitor the implementation of revised control arrangements.</p>
2	<p>Trade payables</p> <p>One out of 15 BACS payments sampled one was not evidenced for segregation of duties – we were unable to confirm the preparer and the authoriser.</p> <p><i>There is a risk that unauthorised payments are made to creditors and that segregation of duties is not maintained.</i></p>	<p>The example provided to support this finding does highlight that there were three people involved in the processing of the BACS file: one to prepare the file itself, and two others to both sign off the BACS file and authorise its submission to the bank for processing. Existing procedures do require full separation of duties in this area and will continue to be reinforced.</p>	<p>No additional audit work proposed, however we will monitor the implementation of revised control arrangements.</p>
3	<p>Trade payables</p> <p>Changes to suppliers' details are not common, and we were advised that staff would always confirm these by contacting the supplier. The process could be further strengthened by retaining evidence of this verification on file.</p> <p><i>There is a risk that incorrect suppliers' details are used and therefore a risk of error or fraudulent activity.</i></p>	<p>We will retain evidence on file of verification processes in order to provide a clearer audit trail of controls in place.</p>	<p>No additional audit work proposed, however we will monitor the implementation of revised control arrangements.</p>

Appendix 2

Key Controls reviewed by Audit Scotland - 2012/13

Key controls reviewed	Conclusion
General ledger	
Financial procedures are documented which detail the operation of the system. This is reviewed on a regular basis.	Satisfactory
Access to the general ledger system is restricted to appropriate personnel.	Satisfactory
Changes to the chart of accounts are requested on a standard new account code request form and approved.	Satisfactory
Processes are in place to ensure that subsidiary systems feed into the general ledger.	Satisfactory
The general ledger system is regularly reconciled with underlying systems.	Satisfactory
Journals are appropriately authorised and evidenced by supporting documentation.	Satisfactory
Output from the general ledger system is reviewed for appropriateness.	Satisfactory
Trial balances are prepared and reviewed on a regular basis.	Satisfactory
General ledger computer files are regularly and sufficiently backed up.	Satisfactory
Trade payables	
Financial procedures are documented which detail the operation of the system. This is reviewed on a regular basis.	Satisfactory
Adequate segregation of duties exists regarding the ordering, receiving of goods and authorising invoices for payment.	Satisfactory
Access to the accounts receivable system is restricted to appropriate personnel.	Satisfactory
Purchase invoices are checked for accuracy before being approved for payment.	Satisfactory
Invoices have a unique reference number determined by the supplier and a unique number is allocated by the finance department and recorded on the document. Duplicate invoices are not processed.	Satisfactory
Changes to supplier data can only be made by specified persons upon receipt of sufficient evidence to prove the suppliers authenticity.	Refer to point 3, Appendix 1
Payments are only made to suppliers upon receipt of an authorised invoice.	Satisfactory
Unidentified payments are posted to a dedicated suspense account which is regularly examined and cleared.	Satisfactory
BACS payment run is prepared by one person and approved by authorised individual.	Refer to point 2, Appendix 1.

Key controls reviewed	Conclusion
Trade payables ledger reconciliations are performed and reviewed by a manager on a timely basis, signed as evidence of review and retained.	Refer to point 1, Appendix 1
Trade payables computer files are regularly and sufficiently backed up.	Satisfactory
Cash income and banking	
Financial procedures are documented which detail the operation of the system. This is reviewed on a regular basis.	Satisfactory
Cash and cash equivalent functions are adequately segregated from other finance functions for the same account areas.	Satisfactory
Reconciliations between the bank general ledger and the bank statements are carried out on a timely basis and reviewed with reconciling items traced to bank statements.	Refer to point 1, Appendix 1
Dedicated suspense accounts are regularly examined and cleared.	Satisfactory
Access to on line banking and finance systems are restricted to appropriate staff.	Satisfactory
Cash income and banking computer files are regularly and sufficiently backed up.	Satisfactory
Payroll	
Financial procedures are documented which detail the operation of the system. This is reviewed on a regular basis.	Satisfactory
Access to the payroll system is restricted to appropriate staff.	Satisfactory
Human Resources and payroll functions are adequately segregated.	Satisfactory – mitigating controls in place
Employing departments periodically confirm the validity of the employees listed in the payroll.	Satisfactory
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
Checks exist to ensure that increases in salaries or rates of pay, following national settlements or increment dates have been correctly implemented.	Satisfactory
Staff Independent of those processing payroll input check all new starter and leaver output to authorised source documents.	Satisfactory

Key controls reviewed	Conclusion
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
Payroll computer files are regularly and sufficiently backed up. Back up files are held remotely in a secure location.	Satisfactory