Cairngorms National Park Authority

Key Controls Report

AUDIT SCOTLAND

Prepared for Cairngorms National Park Authority

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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 Cairngorms National Park Authority ("CNPA" or the "Park Authority") is required, as the Accountable Officer, to maintain a sound system of internal control.

2. We seek to gain assurances that the Park Authority:

    *   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 liabilities

    *   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.

3. 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.

4. Appendix 2 sets out the key controls reviewed within each of the main financial systems and conclusions from our review.

Overall conclusion

5. Our overall conclusion is that the Park Authority's internal controls for the General Ledger, Trade Payables, Payroll and Cash & Banking systems tested operate effectively and this allows us to take planned assurance on these systems for the audit of the 2014/15 financial statements.

6. We have not placed reliance on the controls in operation in the Trade Receivables system. Instead, we will undertake additional substantive testing to gain adequate assurance.

7. In addition, we identified a number of issues which could further strengthen internal control.

Systems of Internal Control

8. Our audit approach included planned controls assurance on the key financial systems of:

    *   general ledger

    *   payroll

    *   accounts receivable

    *   accounts payable

- cash and banking

9. We will perform substantive testing of the capital accounting system 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.

10. To obtain our controls assurance, we reviewed the key controls in the above mentioned financial systems during our visit in February 2015. 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. In accordance with International Standard on Auditing (ISA 330), para 14 and 15, our audit judgements are based on current year testing of controls and, where appropriate, prior year results.

Key Findings

11. We did not identify any significant risk exposure or major weaknesses in the internal controls during our review. However, we identified the following issues which could further strengthen internal control.

- **General Ledger:** CNPA does not keep a record of changes that have been made to codes within its financial ledger. An audit trail of all changes to the Chart of Accounts should exist. This should include details of the user who made the change, the date the change was made and the reason for the change. Management feel that this is a low risk area. However, since the audit, the Finance Manager has produced a list of all changes to the Chart of Accounts in 2014/15 and will maintain this going forward. We will carry out substantive testing of a sample of changes to the chart of accounts during our financial statements audit.

    Refer to Appendix 1, Point 1

- **General Ledger:** Journals processed by the Finance Manager have not been authorised. Journals should be checked by a second officer for accuracy. Management feel that this control is not required as this is a low risk area. We will undertake additional substantive testing of journals during our financial statements audit.

- **General Ledger and Payroll:** The Former Finance Manager is still shown as a user on the Sage financial ledger and the payroll system. The accounts of former employees should be closed to remove the risk that their logon details are used to commit fraud. Management advised that the former Finance Manager cannot be removed from Sage as this would delete the audit trail of changes made to the ledger by him. We have also been advised that this former employee's access rights have now been removed from the payroll system and his logon details cannot be used to access the general ledger and thus cannot be used to commit fraud.

- **Trade Payables:** We sample tested two changes to supplier bank details. To prevent fraud, CNPA staff are required to verify that all bank changes notified by suppliers using existing contact details. However, there was no evidence on the two supplier bank details forms tested that these have been verified using existing supplier contact details prior to

being processed by staff. Whilst staff advised they do verify all bank changes using standing contact details, this process should be evidenced on the face of the form.

Refer to Appendix 1, Point 2

- **Trade Payables:** When sample testing income from bank statements to trace to authorised invoices, we found that two payments received were, in fact, payments made by CNPA that had been returned by the bank. This is because, on both occasions, CNPA staff had entered the wrong supplier bank details when processing the payments. Supplier bank details should be checked for accuracy by a second officer before a payment is authorised.

Refer to Appendix 1, Point 3

- **Trade Receivables:** There is no formal procedure for raising a sales invoice. Instead, staff are expected to approach the Finance Team when an invoice is required. In one instance, it was found that CNPA received money from a supplier without a sales invoice having been raised. The Finance Manager confirmed that an employee had requested payment directly from the customer rather than requesting that the Finance Team raise a formal sales invoice. We note, however, that much of CNPA's income comes from project contributions from third parties, which are low risk. Further, the Finance Manager has trialled the use of a standard form, which he hopes to implement in 2015/16.

Refer to Appendix 1, Point 4

- **Trade Receivables**: We note that aged debtors reports have not been run since July 2014. Management advised that debtors are monitored on a monthly basis by the Director of Corporate Services. Management considers that the level of bad debt has been low historically and that producing formal aged debtors' reconciliations is unnecessary.

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 Park Authority. 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. 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. Audit Scotland's Code of Audit Practice (the 'Code') sets out the wider dimension of public sector audit. The Code requires external auditors to carry out an annual assessment of the adequacy of the internal audit function.

15. Also, based on this assessment we can place formal reliance on areas of internal audit work in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit).

16. Where it can be demonstrated that internal audit objectives are similar to those of external audit, the findings/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.

17. In our Annual Audit Plan, we proposed to place formal reliance on internal audit's review of payroll administration. In terms of our wider Code of Audit Practice responsibilities, we planned to place reliance records management, planning processes and systems and project management.

18. We have now completed our assessment of the internal audit function provided by KPMG LLP. This included a review of the range and quality of work carried out by internal audit. Overall we concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place.

19. We will continue to monitor and review completed internal audit assignments to ensure that work on which we are placing reliance has been delivered. Any failure to complete areas where formal reliance has been agreed could impact on our plan and agreed audit fee.

Acknowledgement

20. 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 - Control Risk Areas

No	Issue Identified	Client Response	Audit Impact
1	**General Ledger:** CNPA does not keep a record of changes that have been made to codes within its financial ledger. An audit trail of all changes to the Chart of Accounts should exist. This should include details of the user who made the change, the date the change was made and the reason for the change.	Management feel that this is a low risk area. However, since the audit, the Finance Manager has produced a list of all changes to the Chart of Accounts in 2014/15 and will maintain this going forward. Management advised that, in future, the "Memo" screen on Sage will be updated with details of who made the change to the Chart of Accounts, the reason for the change and the date that the change was made.	We will perform additional substantive testing during our financial statements audit.
2	**Trade Payables:** There was no evidence on the two supplier bank details forms that these have been verified using existing supplier contact details prior to being processed by staff. Whilst staff advised they do verify all bank changes using standing contact details, this process should be evidenced on the face of the form.	Staff will be reminded that they should sign and date the bank details change form, as well as note details of the person with whom they have verified the change of details. This will evidence that the control is in force.	We will perform additional substantive testing during our financial statements audit.
3	**Trade Payables:** When tracing a sample of income from bank statements, we found that two of the income transactions were, in fact, payments to suppliers that were returned by the bank. This was because CNPA staff had entered the wrong supplier bank details when the payments were initially made.	Staff will be reminded to take extra care when entering bank details. The Finance Manager will ensure that second officer checks are performed on input and changes to supplier details.	We will perform additional substantive testing during our financial statements audit.

No	Issue Identified	Client Response	Audit Impact
4	**Trade Receivables:** There is no formal procedure for raising a sales invoice. Instead, staff are expected to approach the Finance Team when an invoice is required. In one instance, it was found that CNPA received money from a supplier without a sales invoice having been raised. The Finance Manager confirmed that an employee had requested payment directly from the customer rather than requesting that the Finance Team raise a formal sales invoice.	Management will introduce a formal sales invoice form, which will be required for raising all sales invoices.	We will perform additional substantive testing during our financial statements audit.

Appendix 2 - Controls Coverage

Key Controls Reviewed	Conclusion
General ledger	
Access to the general ledger system is restricted to appropriate personnel.	Satisfactory
Changes to the chart of accounts are requested on a standard form and approved prior to implementation.	Refer to point 1, Appendix 1
Journals can only be raised by authorised staff.	Satisfactory
Trial balances are produced and reviewed for reasonableness by a person within the finance function with appropriate authority (the review should be evidenced).	Satisfactory
A sound system of reporting exists. Such reports are promptly investigated and appropriate action taken where necessary.	Satisfactory
Trade payables	
Changes to suppliers' bank details are subject to confirmation prior to processing.	Refer to points 2 and 3, Appendix 1
Purchase invoices are checked for accuracy before being approved for payment by an authorised person.	Satisfactory
Payments are only made to suppliers upon receipt of an authorised invoice.	Satisfactory
BACS payment run is prepared by one person and approved by authorised individual.	Satisfactory
A reconciliation between the purchase ledger and aged creditors' listing is performed and reviewed by a manager on a timely basis, signed as evidence of review and retained.	Satisfactory
Trade Receivables	
Invoices and credit notes are authorised prior to being raised, and are supported by appropriate documentation.	Refer to point 4, Appendix 1
Payments received are allocated to the correct customer through the use of remittance advice slips or references quoted on BACS payments.	Satisfactory

Key Controls Reviewed	Conclusion
A formal debt write off process is in place and is documented which covers the stage at which write offs can be completed, frequency of write offs, who can authorise write offs and how they are to be processed.	Satisfactory
A reconciliation between the sales ledger and the aged debtors listing is performed and reviewed by a manager on a timely basis, signed as evidence of review and retained.	Satisfactory
Banking	
Reconciliations between the bank general ledger accounts and the bank statements are carried out on a timely basis. Reconciling items are identified and followed through to subsequent bank statements. Adjustments to the general ledger are made as necessary. Bank reconciliations and supporting documentation are reviewed on a timely basis by management and reviewed as evidenced.	Satisfactory
Access to on line banking and finance systems are restricted to appropriate staff.	Satisfactory
Payroll	
Human Resources and payroll functions are adequately segregated.	Satisfactory
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
Adequate exception reports are produced and evidently followed up independently of those involved in processing input.	Satisfactory - whilst exception reports are not present, there are compensating controls.
Access to the payroll system is restricted to appropriate staff.	Satisfactory