

Cairngorms National Park Authority

Key Controls Report



Prepared for Cairngorms National Park Authority
April 2014

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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 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 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 systems tested operate effectively and this allows us to take planned assurance on these systems for the audit of the 2013/14 financial statements. We identified three issues which could further strengthen internal control.

Systems of Internal Control

6. Our audit approach included planned controls assurance on the following key financial systems:
 - general ledger
 - trade payables
 - banking
 - payroll.
7. 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.

8. To obtain our controls assurance, we reviewed the key controls in the above mentioned financial systems during our visit in January 2014. 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

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 2013/14 financial statements. However, we identified the following three issues which require attention.
 - The Finance Officer prepares monthly reconciliations between the purchase ledger control account and the aged creditors listing. The reconciliations were signed by the preparer; however, there was no evidence of these reconciliations being reviewed by a second officer.
 - Codes in the financial ledger are created and amended by the Finance Manager only, ensuring this process is carried out at a senior level. However, the Park Authority does not maintain a record of new codes or changes to codes, or supporting documentation for the changes.
 - There were a small number of issues identified around the raising and supporting documentation of journals. This included 4 out of the 15 journals sampled, where the original journal and therefore supporting information was not available and a further 5 where the original journal was available but supporting documentation or information was not available to support the journal.
10. 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

11. 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.
12. Our Annual Audit Plan, issued in January 2014, explains that auditing standards require internal and external auditors to work together to make best 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.

13. 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
 - Cash and cash equivalents.
14. We have performed a detailed review of the work carried by internal audit and concluded that the work has been completed to a standard that will allow us to place reliance on this for our financial statements audit as planned.

Acknowledgement

15. 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	Management Response	Audit Impact
1	<p>Trade Payables</p> <p>The Finance Officer prepares monthly reconciliations between the purchase ledger control account and the aged creditors listing. There is no evidence of senior officer review.</p>	<p>The monthly reconciliations are now reviewed and evidenced. Given the limited functionality in Sage 200 purchase ledger module the reconciliation is high level – month end total only, less batched bank payments totals post month end –this reconciliation is not strong and other analytical reviews are used to monitor trade payables.</p>	<p>No additional audit work proposed for the 13/14 audit.</p>
2	<p>General Ledger</p> <p>Codes in the financial ledger are created and amended by the Finance Manager only. However, records of new codes or amendments and supporting documentation for these, are not maintained.</p>	<p>This should not be an issue in 2014/15 as the accounting process has been streamlined (only 1 trial balance) and account codes for the year were agreed with Heads of Service in advance. (Core TB with projects, including LEADER transactions incorporated.) The intention is to open no new codes in the year.</p>	<p>No additional audit work proposed for the 13/14 audit.</p>
3	<p>General Ledger</p> <p>There were a small number of issues around the raising and supporting documentation of journals. This included 4 out of the 15 journals sampled, where the original journal was not available and a further 5 where supporting documentation or information was not provided to support the journal.</p>	<p>Post audit visit journals were identified which were not in the journal folder at the time of the audit visit. The unsighted journals are now available to the audit team.</p> <p>Additional information is usually written on the journal to record the rationale for the journal or give additional clarity, where information cannot be readily traced. Attaching additional documentation to a journal is a matter of judgement: to balance the volume of paper and where</p>	<p>No additional audit work proposed for the 13/14 audit.</p>

No	Issue identified	Management Response	Audit Impact
		support is maintained on a (usually) a spreadsheet. More relevant back up will be attached for 2014/15 journals, or a clear reference to where more detailed information is stored, as a matter of good practice and better corporate governance.	

Appendix 2

Key Controls reviewed by Audit Scotland - 2013/14

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 2, Appendix 1
Journals can only be raised by authorised staff.	Refer to point 3, Appendix 1
Unusual or unidentified transactions are investigated and corrected regularly.	Satisfactory
A sound system of reporting exists. Such reports are promptly investigated and appropriate action taken where necessary.	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
Trade payables	
Access to the accounts payable system is restricted to appropriate personnel.	Satisfactory
Changes to supplier's bank details are subject to confirmation prior to processing.	Satisfactory
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
An accounts payable ledger reconciliation is performed and reviewed by a manager on a timely basis, signed as evidence of review and retained.	Refer to point 1, Appendix 1
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

Key controls reviewed	Conclusion
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
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
Access to the payroll system is restricted to appropriate staff.	Satisfactory