



Loch Lomond and The Trossachs National Park Authority

**Review of Internal
Controls 2015/16**

**Prepared for Loch Lomond and The Trossachs
National Park Authority**

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Asif A Haseeb, Engagement Lead, Audit Scotland is the appointed external auditor of Loch Lomond and The Trossachs National Park Authority for the period 2011/12 to 2015/16.

This report has been prepared for the use of Loch Lomond and The Trossachs National Park Authority and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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Summary

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 Loch Lomond and the Trossachs National Park Authority ("LLTNPA" 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.

Summary of findings

3. We have tested the key controls operating within the financial systems of Loch Lomond and The Trossachs National Park Authority to ensure that they are operating satisfactorily.
4. 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.
5. Appendix 2 sets out the key controls reviewed within each of the main financial systems and conclusions from our review.
6. Our overall conclusion is that the Park Authority's internal controls for the General Ledger, Payroll, Trade Payables, Trade Receivables and Cash & Banking systems tested operate effectively and this allows us to take planned assurance on these systems for the audit of the 2015/16 financial statements.

Acknowledgement

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

Audit Findings

Systems of internal control

8. Our audit approach included testing the following key financial systems:
 - General Ledger
 - Payroll
 - Trade Payables
 - Trade Receivables
 - 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 system during the year.
10. To obtain controls assurance, we reviewed the key controls in the above mentioned financial systems during our visit in January 2016. 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:** Reconciliations of bank accounts and feeder systems are performed and reviewed on a monthly basis. It is good practice that each reconciliation has evidence that it has been prepared and reviewed timeously. We found that the preparer and reviewer sign a generic cover sheet, which does not identify the reconciliations that have been prepared and reviewed in the month. The Park Authority should identify the reconciliations that have been prepared and reviewed in accordance with good practice.

Refer to Appendix 1, Action Plan Point 1
 - **Cash and Banking:** There is no formal policy in place for opening and closing bank accounts at the Park Authority. Instead, there is an informal policy whereby the Finance and Procurement Manager is the only officer who can open and close bank accounts. However, the Park Authority should have a formal procedure in place for opening and closing bank accounts as a matter of good practice.

Refer to Appendix 1, Action Plan Point 2
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 on a number of other areas of internal audit's work (refer to Annual Audit Plan, paragraph 14).
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 they carried out. 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.

Appendix 1: Action plan

The table below sets out the recommendations to improve the control environment:

No.	Recommendation	Responsible Officer	Management response/planned action	Target date
1	<p>General Ledger - Reconciliations</p> <p>Management should ensure that the generic cover sheet clearly states which reconciliations have been prepared and reviewed. The generic cover sheet should be signed and dated by both the preparer and reviewer.</p>	Finance & Procurement Manager	The cover sheet will be updated to include the list of reconciliations. It will be signed/dated by both the preparer and reviewer. This includes the reconciliations of all the feeder systems as documented.	31 March 2016
2	<p>Cash and Banking – Opening & Closing Bank Accounts Procedures</p> <p>Management should implement a formal policy for opening and closing bank accounts at the Park Authority.</p>	Finance & Procurement Manager	We will document the policy of opening and closing bank accounts.	15 May 2016

Appendix 2: Key Controls Coverage

The table below sets out the key controls that were tested as part of our audit work:

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	Satisfactory
The general ledger is regularly reconciled with other feeder systems to ensure that data transfer is accurate and complete.	Refer to Appendix 1, Action Plan Point 1
Journals can only be approved by authorised staff.	Satisfactory
Unusual or unidentified transactions are investigated and correct regularly.	Satisfactory
Trial Balances are produced and reviewed for reasonableness by a person within the finance function with appropriate authority.	Satisfactory
A sound system of exception reporting exists. Such reports are promptly investigated and appropriate action taken where necessary.	Satisfactory
Payroll	
Human resources and payroll functions are adequately segregated.	Satisfactory

Key Controls Reviewed	Conclusion
Employing departments periodically confirm the validity of the employees listed on 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
Staff independent of those processing payroll input check all new starter and leaver output to authorised source documents.	Satisfactory
Adequate exception reports are produced and evidently followed up independently of those involved in processing input.	Satisfactory - whilst exception reports are not utilised, there are mitigating controls.
Access to the payroll system is restricted to appropriate staff.	Satisfactory
Checks exist to ensure that increases in salary or rates of pay, following national settlements or increment dates have been correctly implemented.	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

Key Controls Reviewed	Conclusion
The payroll system is regularly reconciled to the general ledger system to ensure data transfer is accurate and complete.	Refer to Appendix 1, Action Plan Point 1
Trade Payables	
Access to the accounts payable system is restricted to appropriate personnel.	Satisfactory
Changes to suppliers' 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 an 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 Appendix 1, Action Plan Point 1
A sound system of exception reporting exists. Such reports are promptly investigated and appropriate action taken where necessary.	Satisfactory
Trade Receivables	
Access to the accounts receivable system is restricted to appropriate personnel.	Satisfactory
Invoices and credit notes are authorised prior to being raised, and are supported by appropriate documentation.	Satisfactory

Key Controls Reviewed	Conclusion
Payments received are allocated to the correct customer through the use of remittance advice slips or references quoted on BACS payments.	Satisfactory
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.
An accounts receivable ledger reconciliation is performed and reviewed by a manager on a timely basis, signed as evidence of review and retained.	Refer to Appendix 1, Action Plan Point 1
A sound system of exception reporting exists. Such reports are promptly investigated and appropriate action taken where necessary.	Satisfactory
Cash & Banking	
Closure and opening of bank accounts is adequately controlled.	Refer to Appendix 1, Action Plan Point 2
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 review is evidenced.	Refer to Appendix 1, Action Plan Point 1
Access to the on-line banking and finance systems are restricted to appropriate staff.	Satisfactory