

INTERNAL AUDIT SERVICES
REPORT REF No S/022/18 (August 2017)

**Loch Lomond & The Trossachs
National Park Authority
Banking Review**



West Dunbartonshire ~ from the banks of Loch Lomond to the shores of the Clyde



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Personnel associated with the report:

Jaki Carnegie - Director of Corporate Services (Loch Lomond & The Trossachs National Park Authority)

Catriona Morton – Financial Performance Manager (Loch Lomond & The Trossachs National Park Authority)

Andrew Jump – Finance and Procurement Manager (Loch Lomond & The Trossachs National Park Authority)

Claire Andrews – Internal Auditor (West Dunbartonshire Council)

1. AUDIT REPORT SUMMARY

General

A Banking Review audit was conducted on the banking processes currently in place.

The review highlighted that opportunities exist to strengthen internal controls and enhance the service provided, the most important of which are listed below:

- Improve the method for recording income received from camping permits and pitches; and
- Move to a two tier payment approval system.

The Audit also highlighted areas of good practice as follows:

- Online banking controls and security.

Full details of these opportunities and any other points that arose during the audit are included in the Action Plan, which forms Section 3 of this report.

2. MAIN REPORT

2.1 INTRODUCTION

2.1.1 A Banking Review audit was carried out as part of Internal Audit's Planned Programme of Audits for 2017/18.

2.2 SCOPE AND OBJECTIVES

2.2.1 An audit launch meeting was held with Jaki Carnegie, Catriona Morton, Andrew Jump and Claire Andrews to agree the scope and objectives of the audit. The scope was agreed with Jaki Carnegie, Director of Corporate Services for Loch Lomond & The Trossachs National Park Authority. The scope is detailed below.

2.2.2 The Authority's procedures were reviewed in conjunction with the Scottish Government banking guidance to confirm compliance and to understand the controls in place. The following documents were reviewed:

- Scottish Public Finance Manual (SPFM) banking guidance;
- Management Statement and Financial Memorandum (September 2010);
- Cash Handling and Banking Procedures (December 2015); and
- Payment Approvals Paper (June 2017).

2.2.3 A review and re-performance of a sample of the banking reconciliations to ensure the bank reconciliations are operating effectively.

2.2.4 A review of the payment approval processes and the controls surrounding cheques.

2.2.5 An understanding of the on-line banking controls.

2.2.6 A review of the selection process of the banking provider including the analysis of banking costs.

2.3 FINDINGS

2.3.1 The findings are based upon evidence obtained from stratified sampling/substantive testing.

2.3.2 The audit was conducted in conformance with the Public Sector Internal Audit Standards (PSIAS).

2.3.3 This report details all points arising during the audit review, full details of which are included in the Action plan contained within Section 3 of this report.

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We stress that these are the points arising via the planned programme of work and are not necessarily all of the issues that may exist.

- 2.3.4 The factual accuracy of this report has been verified by the officers involved in the audit.
- 2.3.5 The review of the procedures highlighted that none of the current procedures adequately cover specific banking operations such as opening and closing of accounts, access controls and review of banking provider's and their charges. There are also no details in the procedures about performing banking reconciliations, or payment approval processes, however these are still carried out monthly, please see details about the banking reconciliations in paragraph 2.3.6. It is recognised by Internal Audit that The Authority is currently reviewing all of their policies and procedures, the banking procedures need to be included on a priority basis as part of this review. Please see the Action Plan in section 3 of this report for further details.
- 2.3.6 A sample of the monthly bank reconciliations from the year June 2016 – July 2017 were tested to ensure they were prepared correctly and reviewed by another member of staff. For each sample the preparation and review was as expected.

Upon review of the reconciliation process it was established that, although on a monthly basis all accounts are reconciled, if there are no transactions in an account in that month then a bank statement cannot be extracted from the banking system. In these months the team has been using old statements to provide back up for the reconciliation. Internal Audit however established that although a statement cannot be produced a view of the month end balance can be seen on the summary page of all the accounts therefore Internal Audit recommends that a print of this is taken for the reconciliation rather than using historical statements. Please see the Action Plan for further details.

- 2.3.7 During each month nearly all income and all payment amounts are ledgered as they occur and when finance perform the reconciliation as expected the amount in the general ledger is reconciled to the bank statement.

However, an effective method of recording the new camping income stream (camping pitches and permits) is still under development and at present finance are using the value of cash received into the bank account as the amount of camping income to be recorded into the ledger, therefore these values will always reconcile. Internal Audit would class this as an incomplete reconciliation.

The camping pitches and permits are booked by customers in the Campstead system and payments are made via SAGE (SAGE being a software system allowing customers make Payments to The Authority simply, securely and reliably.)

A process needs to be developed that generates the income expected from camping pitches and permits at the point of booking in the Campstead system and this should be used to post the income to the ledger and subsequently reconciled to the payments received.

2.3.8 When reviewing the payment approval process it was established that The Authority is currently operating a one tier payment process. This is in breach of the Scottish Public Finance requirements. It should be noted that prior to this audit being undertaken The Authority had recognised that the current payment approval process was not adequate and a paper has already been put to the board to extend this to a two tier approval process. As part of this audit, Internal Audit have reviewed this paper and agree that the options put forward cover this requirement, as per the paper submitted to the board Internal Audit would agree with the suggestion to pursue proposal B using direct submission via third party software. Internal Audit would recommend that the proposals are agreed as soon as possible and implemented immediately. Please see the Action Plan in section 3 of this report for further details.

2.3.9 Internal Audit sought to gain an understanding of the controls surrounding the use of cheques within The Authority. It was established that there is only one cheque book in The Authority and the use of this is restricted.

2.3.10 The on-line banking controls are dictated by the banking provider in regards to passwords and access keys. The Authority though has taken further measures to ensure access control by limiting the number of officers who have access to the bank accounts and then limiting further the number of those officers who can make payments from the accounts.

It should be noted that everybody who has access to the banking systems has additional anti-virus software installed on their computer systems. There is a small number of staff based within HQ who work with other organisations and who access to other organisation's banking systems and these staff also have the anti-virus software installed on their computer systems.

2.3.11 A review of banking providers and their charges has not been done for many years. The Scottish Public Finance guidance manual states that all organisations should use the same banking provider, The Authority are not currently using the same provider, it is understood that that public organisations with income of less than £10m are not required to use the Scottish Government Banking Arrangements, this is not explicit in the regulations. Andrew Jump attending a banking seminar and had numerous phone conversations to confirm that this was the case. A decision has been made that The Authority will start using the same provider however the Government contract is up for renewal in 2018, so The Authority has made the decision to suspend changing bank accounts until the new contract is in place in order to avoid the potential of having to move banks multiple times and incur the costs associated with this.

Although it is recognised that The Authority is waiting to change bank accounts, Internal Audit would recommend that a discussion should at least be held with their current providers to ensure they are receiving the best rates possible at the current time.

2.3.12 Audit would like to thank all staff involved in the audit process for their time and assistance.

3. Action Plan: National Park - Banking Review S.022.18						
Ref. No.	Finding	Recommendation	Priority	Management Comment	Manager Responsible	Date to be Completed
1.	<p><u>Camp permit and pitch income</u></p> <p>Currently the Authority is not recording the income received from the sale of camping permits and pitches at the point of booking; currently the amount of money received in the bank account is used as the amount of income to be ledgered. The Finance Adviser and Finance and Procurement Manager are currently considering the best way to review 1,000-2,000 per month transactions of low value bookings in the Camsptead system (permits are £3 per night and pitches are £7 per person per night) to determine the best way to extract and record this information so there is a back log at present.</p> <p>As well as creating an administrative burden income shouldn't be</p>	<p>A system is developed to record the income received from camping pitches and permits at the point of booking/payment. This system should generate the income amounts that are to be ledgered so that bank transactions / amounts can be regularly reconciled to these values.</p>	Medium	<p>A system or process will be developed to establish the income received from camping pitches and permits at the point of booking and this will be used to post the income to the ledger and then subsequently reconciled to the payments received.</p>	Finance and Procurement Manager	31 January 2018

3. Action Plan: National Park - Banking Review S.022.18						
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	recorded based on the amount in the bank account, rather the bank account should be reconciled to the ledger.					
2.	<p><u>Creation and update of banking procedures</u></p> <p>None of the current procedures adequately covers specific banking procedures such as opening and closing accounts, accessing accounts and review of banking charges/interest etc., they also don't cover banking reconciliations.</p>	It is recognised that Management are currently reviewing all The Authority's procedures, as part of this process specific focus needs to be given to banking procedures on a priority basis.	Medium	Agreed.	Finance and Procurement Manager	28 February 2018
3.	<p><u>One tier payment approval</u></p> <p>Currently there is a one tier system for payments this is in breach of the SPFM guidance. Internal Audit recognise that finance have already written a paper to address this for the Executive Team.</p>	It is recommended that the two tier system that has been proposed is accepted by the Executive Team as soon as possible and implemented by finance.	Medium	Agreed.	Finance and Procurement Manager	30 November 2017

3. Action Plan: National Park - Banking Review S.022.18						
Ref. No.	Finding	Recommendation	Priority	Management Comment	Manager Responsible	Date to be Completed
4.	<u>Current Bank Statements</u> If during a month there have been no transactions in a bank account the banking system doesn't allow a bank statement to be generated. Therefore finance have been using old statements for back up for the monthly reconciliations.	A current view of the balances of all the accounts can be seen on the system as a summary therefore it is recommended that a print of this is taken at month end to be used for the reconciliation rather than using historical statements.	Low	Agreed.	Finance and Procurement Manager	30 November 2017
5.	<u>Review of current banking arrangements</u> It is recognised that The Authority are wanting to wait for the new Government banking contract to consider changing bank, however there has been no periodic review of banking charges/interest etc. for the current banking arrangements.	<p>a) It is recommended that a discussion takes place with The Authority's current bank to determine if they are still receiving the best rates at the current point in time.</p> <p>b) Consideration should also be given to the banking provider when the new Government contract is put in place in 2018.</p>	Low	Agreed.	Finance and Procurement Manager	31 December 2017 31 August 2018

Appendix 1. Priority Levels

Recommendations have timescales for completion in line with the following priorities.

Priority	Expected implementation timescale
High Risk: Material observations requiring immediate action. These require to be added to the risk register of a Service (Council context).	Generally, implementation of recommendations should start immediately and be fully completed within three months of action plan being agreed
Medium risk: Significant observations requiring reasonably urgent action.	Generally, complete implementation of recommendations within six months of action plan being agreed.
Low risk: Minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.	Generally, complete implementation of recommendations within twelve months of action

Note: About this report

This Report has been prepared on the basis set out in the Memorandum of Understanding (MOU) between the National Park Authority as the Client and West Dunbartonshire Council (WDC) as the provider of Internal Audit services. Nothing in this report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the MOU. This Report has been prepared for the benefit of the Client only. This Report has not been designed to be of benefit to anyone except the Client. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Client, even though we may have been aware that others might read this Report. This Report is not suitable to be relied on by any party wishing to acquire rights against WDC, other than the Client for any purpose or in any context. Any party other than the Client that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, the Environmental Information (Scotland) Regulations 2004 through the Client's Publication Scheme or otherwise) and chooses to rely on this Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, WDC does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Client. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Client alone, this Report has not been prepared for the benefit of any other public sector body nor for any other person or organisation who might have an interest in the matters discussed in this Report, including for example those who work in the public sector or those who provide goods or services to those who operate in the public sector.