

Loch Lomond and The Trossachs National Park Authority

Key Controls Report



Prepared for Loch Lomond and The Trossachs Park Authority
April 2015

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Audit Findings	4
Introduction	4
Systems of Internal Control	5
Key Findings	5
Internal Audit	7
Acknowledgement	8
Appendix 1 - Control Risk Areas	9
Appendix 2 - Controls Coverage	13

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 Loch Lomond and the Trossachs ("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.
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, Trade Receivables, 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. In our Annual Audit Plan, we identified the risk of fraud over income. In addition to our controls testing of the Trade Receivables system, we noted that the Park Authority receives approximately £60,000 per annum from the Boat Registration Scheme. This is received by cash and card payment at the Duncan Mills Memorial Slipway ("the Slipway"). Cash receipts pose a higher risk of fraud or misstatement.
7. We have not placed reliance on the controls in operation over the Boat Registration Scheme due to a lack of segregation of duties in the system for receipting and recording income. We will therefore undertake additional substantive testing of this income during our financial statements audit.
8. In addition, we identified a number of issues which could further strengthen internal control.

Systems of Internal Control

9. Our audit approach included planned controls assurance on the key financial systems of:
 - General Ledger
 - Payroll
 - Accounts Receivable
 - Accounts Payable
 - Cash and Banking
 - Boat Registration Scheme
10. 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.
11. To obtain controls assurance, we reviewed the key controls in the above mentioned financial systems during our visit in January 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

12. 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:** The Finance and Procurement Manager authorises his own journals, without any second officer check. Further, he does not complete a journal sheet for the journals he posts.

Refer to Appendix 1, Point 1
 - **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, Point 2

- **Boat Registration Scheme:** LLTNPA receives approximately £60,000 of income at the Slipway. The income relates to an annual fee from boat owners who wish to use the Park Authority's launch facilities and also income from sales of lifejackets, etc. There is a lack of segregation of duties in the handling of this Income. The Registration Officer has access to the till and the safe. She also performs the weekly cash count without any second officer check.

Refer to Appendix 1, Point 3

- **Boat Registration Scheme:** As part of the key controls, staff operating the till are required to run "Z" and "X" reports from the till on a daily basis. These reports provide a till confirmation of the amount of takings for the day and the Z report also clears the balance on the till. We found that:
 - in three of the weeks (during June and August 2014), X reports were not run on at least one occasion and
 - in two of the weeks (during January and June 2014), Z reports were not run on at least one occasion.

Refer to Appendix 1, Point 4

- **Boat Registration Scheme:** Till receipts are attached to registration forms as evidence these have been paid and processed through the till. However, we found that in two of the fifteen registration forms sampled no receipt was attached. It was noted that the receipt may have fallen off the registration form or not been printed due to an oversight.

Refer to Appendix 1, Point 5

- **Payroll:** The Payroll Officer calculates the annual pay award using a spreadsheet and then enters this information onto the payroll system. However, there is no evidence that a second officer reviews the pay increase in detail to confirm the accuracy of the information entered.

Refer to Appendix 1, Point 6

- **Payroll:** LLTNPA does not confirm with line managers the existence of employees on the payroll. Given the high number of seasonal staff employed by the Park Authority, this is a particular risk.

Refer to Appendix 1, Point 7

- **Cash and Bank:** The Park Authority holds a number of blank cheques in its safe on which the former Chief Executive's signature has been pre-printed. We note that there are mitigating controls in place, such as the requirement for two members of staff to access the safe. The Park Authority uses these cheques infrequently and also maintains a chequebook, which is used for the majority of its cheque payments. However, despite these mitigating controls, we consider that this poses a risk of fraud. The appointment of a new Chief Executive gives LLTNPA the option to consider whether it will continue with the use of pre-signed blank cheques.

Refer to Appendix 1, Point 8

- **Cash and Bank:** Our audit testing took place the week after the appointment of the new Chief Executive and the departure of the previous Chief Executive. At this point, the Park Authority had not yet notified its bank of the change in management, which will have a corresponding impact on the authorised signatories for LLTNPA's bank accounts.

Refer to Appendix 1, Point 9

13. 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

14. 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.
15. 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.
16. 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).
17. 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.
18. 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 and systems and project management.
19. 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.
20. 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

21. 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: The Finance and Procurement Manager authorises his own journals, without any second officer check. Further, he does not complete a journal sheet for the journals he completes.	We do not consider this to be a significant risk to the organisation. However, from April 2015 all journals will be entered by the Finance Adviser, printed and then checked and approved by the Finance & Procurement Manager.	We will perform substantive testing of journal entries as part of the financial statements audit.
2	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.	As above we do not consider this to be a significant risk. However, the reconciliation cover sheet will be expanded to list the accounts and the balances reconciled so it can be clearly identified which accounts are covered by the review.	We will revisit this as part of our 2015/16 audit.
3	Boat Registration Scheme: There is a lack of segregation of duties in the handling of the Slipway income. The Registration Officer has access to the till and the safe. She also performs the weekly cash count without any second officer check.	The amounts involved are not high so there is no material risk to the organisation. It may be possible to remove till access from the Registration Officer so that she can only run the Z reports, however that might have practical resource implications for the team at the slipway. The Finance & Procurement Manager will review the processes and segregation of duties with the	We will perform additional substantive testing during our financial statements audit.

No	Issue Identified	Client Response	Audit Impact
		<p>Ranger Service Manager and agree if any changes can be made to increase the level of financial control. An immediate change will be to the summary weekly income sheet that is presented to the Finance Adviser. This sheet is reconciled to banking and used to post the income to the ledger. The weekly summary income sheet presented to the Finance Adviser will immediately include all Z's relating to the weekly banking. This will mean that the reconciliation should agree with till takings.</p>	
4	<p>Boat Registration Scheme: As part of the key controls in the Slipway, staff are required to run "Z" and "X" reports from the till. These reports provide a till confirmation of the amount of takings for the day. We found that, in three of the weeks, X reports were not run on at least one occasion and in two of the weeks, Z reports were not run on at least one occasion.</p>	<p>Staff will be reminded of the importance of running these reports and the Finance & Procurement Manager will review the processes with the Ranger Service Manager to ensure that management are aware of this requirement. As above the amounts involved are not material.</p>	<p>We will perform additional substantive testing during our financial statements audit.</p>
5	<p>Boat Registration Scheme: Till receipts are attached to registration forms as evidence these have been paid and processed through the till. However, we found that in two of the fifteen registration forms sampled, no receipt was attached. It was noted that the receipt may have fallen off the registration form or not been printed due to an oversight.</p>	<p>Staff will be reminded of the importance of accurate filing of the till receipts and the Finance & Procurement Manager will review the processes with the Ranger Service Manager and agree if any changes can be made to increase the level of financial control. As above the amounts involved are not material.</p>	<p>We will perform additional substantive testing during our financial statements audit.</p>
6	<p>Payroll: The Payroll Officer</p>	<p>The HR Manager will spot check</p>	<p>We will perform</p>

No	Issue Identified	Client Response	Audit Impact
	calculates the annual pay award using a spreadsheet and then enters this information onto the payroll system. However, there is no evidence that a second officer reviews the pay increase in detail to confirm the accuracy of the information entered.	the accuracy of the payroll system on a monthly basis, with particular emphasis on the month in which the pay award is processed. The normal monthly payroll process would identify any major input errors, therefore there is no material risk to the organisation.	additional substantive testing during our financial statements audit to confirm the accuracy of a sample of payroll amendments following the annual pay award.
7	Payroll: LLTNPA does not confirm with line managers the existence of employees on the payroll. Given the high number of seasonal staff employed by the Park Authority, this is a particular risk.	Employees are checked with each manager on an annual basis when the budget is prepared. Additional staff costs reporting is planned for development over 2015/16 and this will incorporate advising managers which staff their budget centre is being charged with. The seasonal staff are actively managed by the Ranger Service Manager and the Visitor Operations Manager and HR/Payroll are advised promptly of any changes, therefore we do not consider this to be a significant risk to the organisation. The HR Manager approves all HR changes each month ensuring that all changes notified to HR are also communicated to the Payroll Officer.	We will perform additional substantive testing during our financial statements audit to confirm the existence of a sample of staff on the payroll.
8	Cash and Bank: The Park Authority holds a number of blank cheques in its safe on which the former Chief Executive's signature has been pre-printed. We note that there are mitigating controls in place, such as the	All existing pre-printed cheques have now been destroyed and we will not use these in future.	No further action.

No	Issue Identified	Client Response	Audit Impact
	<p>requirement for two members of staff to access the safe. Further, we note that LLTNPA uses these cheques infrequently and instead uses a chequebook for the majority of its cheque payments. However, despite these mitigating controls, we consider that this poses a risk of fraud. The appointment of a new Chief Executive gives LLTNPA the option to consider whether it will continue with the use of pre-signed blank cheques</p>		
9	<p>Cash and bank: Our audit testing took place the week after the appointment of the new Chief Executive and the departure of the previous Chief Executive. At this point, the Park Authority had not yet notified its bank of the change in management, which will have a corresponding impact on the authorised signatories for LLTNPA's bank accounts.</p>	<p>Bank signatories will be updated before year-end audit (forms prepared for submission to the bank).</p>	<p>We will confirm this during our financial statements audit.</p>

Appendix 2 - Controls Coverage

Key Controls Reviewed	Conclusion
Boat Registration Scheme Income	
Customers complete a standard form for registration fees. Once the form is processed, the receipt is attached to the form as evidence that payment has been received. The registration is recorded in the Registration spreadsheet.	Refer to Appendix 1, Point 5
Staff run "X" and "Z" reports from the till on a daily basis which provides evidence of the till takings for the day. The till takings are stored in a safe.	Refer to Appendix 1, Point 4
On a weekly basis, the Registration Officer counts the cash in the safe and the X and Z reports for the week. She then completes a Summary Income Return, which is sent to the Finance Team. Group 4 Security uplift the cash and make a payment into LLTNPA's bank account.	Refer to Appendix 1, Point 3
On receipt of a Summary Income Return, the Finance Team check the amount banked and the credit card statement to the Summary Income Return. A journal is processed to record this income.	Satisfactory
General Ledger	
The general ledger is regularly reconciled with other feeder systems to ensure that data transfer is accurate and complete.	Refer to Appendix 1, Point 2
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
Journals can only be raised by authorised staff.	Refer to Appendix 1, Point 1
Unusual or unidentified transactions are investigated and corrected regularly.	Satisfactory
Trial balances are produced and reviewed for reasonableness by a person within the finance function with appropriate authority.	Satisfactory

Key Controls Reviewed	Conclusion
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.	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
Trade Receivables	
Invoices and credit notes are authorised prior to being raised, and are supported by appropriate documentation.	Satisfactory
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 aged debtors report is run on a regular basis. Debt that has been outstanding for longer than 30 days is followed up with customers to seek payment of the debt.	Satisfactory
Banking	
Closure and opening of bank accounts is adequately controlled.	Refer to Appendix 1, Point 9
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

Key Controls Reviewed	Conclusion
Payroll	
Human Resources and payroll functions are adequately segregated.	Satisfactory
Employing departments periodically confirm the validity of the employees listed in the payroll.	Refer to Appendix 1, Point 7
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.	Refer to Appendix 1, Point 6
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.	Internal audit identified a weakness in this control
Access to the payroll system is restricted to appropriate staff.	Satisfactory