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CAIRNGORMS NATIONAL PARK AUTHORITY
Audit Committee Paper 3 Annex 1 06/12/13

The Cairngorms National Park Authority

Internal audit report
LEADER review

23 September 2013

This report is for:

Action

David Cameron, Corporate
Services Director

Information

Audit Committee

	Page
Introduction and background	2
Key findings and recommendations	3
Action Plan	4
Appendix one: objective, scope and approach	6
Appendix two: classification of findings	7

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Introduction and scope

In accordance with the 2011-12 to 2013-14 strategic internal audit plan for Loch Lomond & The Trossachs National Park Authority (“LLTTNPA”) and Cairngorms National Park Authority (“CNPA” or together “the Authorities”), we have performed an internal audit of the LEADER programme. The overall objective of this audit was to provide assurance over key processes and controls surrounding the cycle from claims processing through to final payment and project closure. We have also considered the audit trail for grants and, on a sample basis, the adequacy of supporting documentation, as well as processes for project on-the-spot and ex spot inspections.

Background

LEADER is a French acronym, ‘Liaison Entre Actions de Developpement de l’Economie Rurale’ and refers to European funding made available to enhance rural communities. An annual internal audit review is required as part of the service level agreement between the Scottish Rural Payments & Inspection Directorate and CNPA. This requires consideration of CNPA’s compliance with the service level agreement and the relevant EC Regulations.

CNPA has been responsible for the financial management of the LEADER programme (“the Programme”) since the foundation of the national park in 2003. The Programme is run by the Cairngorms Local Action Group (“LAG”), comprising representatives from the community, business, youth, and womens’ groups in the area, along with representatives from public sector bodies. The LAG is responsible for the consideration and approval of project applications. Administrative support to the LAG is provided by a dedicated team of CNPA staff. The Programme runs until 31 December 2013 and has a value of approximately £2.58 million in European funds. It has been open to applications for assistance since April 2008.

An additional £67,500 of funds were accepted by CNPA as Lead Partner in April 2012. These funds are subject to the same conditions as the original funding. As the programme ends in December 2013, the project team has identified a number of projects where funds have not been fully utilised, and these have been freed up for new projects. The final LAG approval meeting is taking place in September 2013, where any remaining uncommitted funds are expected to be fully utilised.

In June 2012, a monitoring visit was carried out by the Rural Community Rural Policy Team of the Scottish Government (“RCRPT”). The management report highlighted that the LAG had improved the files since the last monitoring visit in June 2011 and a clearer audit trail was in place. In particular, it was noted that the project applications provided significant detail regarding what LEADER convergence was funding, for example Aspen Group which had a good breakdown of costs in the application. It was also noted that no expenditure was incurred prior to receipt of signed acceptance. Reviews carried out by CNPA’s previous internal auditor did not identify any significant issues.

Key findings and recommendations

We have identified no 'critical', or 'high' risk graded recommendations in the course of our work.

One 'moderate' and two 'low' graded recommendations have been identified.

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Management has accepted the findings and agreed reasonable actions to address the recommendations.

	Critical	High	Moderate	Low
Number of internal audit findings	-	-	1	2
Number of recommendations accepted by management	-	-	1	2

We identified no 'critical', or 'high' risk graded recommendations. The moderate risk level recommendation relates to one payment we identified where evidence of authorisation had not been retained.

The other recommendations are low graded and relate to:

- ensuring that the methodology for sample selection of projects to be subjected to on-the-spot and ex post checks are retained; and
- ensuring that annual confirmation certificates are submitted to the Scottish Government by the specified deadline.

Areas of good practice

We have identified the following areas of good practice throughout the course of our review:

- reconciliations of the amounts received and paid as per the claims to the amounts on recorded on SAGE are now performed quarterly to identify and investigate discrepancies before any claims are sent to the Scottish Government;
- a detailed analytical review of core costs (admin costs) is now performed monthly (since May 2013);
- administrative checks are conducted by the LEADER team on receipt of project claims to ensure the claim adheres to the conditions of offer before any payments are made; a checklist is completed for that purpose and retained in the project file; and
- the LEADER team keeps clear and detailed records of administrative checks.

The action plan summarises specific recommendations, together with related risks and management's responses.

Finding(s) and risk	Recommendation(s)	Agreed management actions
<p>1 Payment authorisation</p>		
<p>Testing identified one case where a payment of more than £5,000 had been processed by the finance department even although the payment authorisation form had not been signed by the corporate services director.</p> <p>There is a risk that inappropriate payments are processed.</p>	<p>Management should ensure that there are appropriate controls so that payments are not processed until evidence of authorisation has been received.</p>	<p>Moderate</p> <p>Agreed - Finance Team procedures to confirm due Authorisation of payment vouchers to be reinforced.</p> <p>Responsible officer: Finance Manager</p> <p>Implementation date: September 2013</p>
<p>2 Inspection sample selection</p>		
<p>Our testing identified that whilst on-the-spot and ex post checks had been carried out, there was no record of the methodology used to select the sample for testing.</p> <p>There is a risk that CNPA is not sampling grants in line with the requirements of the technical guidance if the sample selection cannot be evidenced.</p>	<p>The methodology for sample selection should be retained when future inspections are completed. This should clearly demonstrate consideration of the guidance and justification for the selection.</p>	<p>Low</p> <p>Agreed - LEADER Manager to ensure records supporting sample selection and rationale are retained to evidence processes employed.</p> <p>Responsible officer: LEADER Manager</p> <p>Implementation date: September 2013</p>
<p>3 Annual confirmation certificates</p>		
<p>Testing identified that the annual confirmation certificate was submitted after the deadline set by the Scottish Government.</p> <p>CNPA was, therefore, in breach of the guidance, although we understand that the Scottish Government is aware of this and has not raised an issue.</p>	<p>Management should ensure that annual confirmation certificates are submitted to the Scottish Government by the required deadline.</p>	<p>Low</p> <p>Agreed - delay in submission found is relatively small and Scottish Government were aware of position.</p> <p>Responsible officer: Corporate Services Director</p> <p>Implementation date:</p> <p>October 2013</p>

Appendices

In accordance with the 2011-12 to 2013-14 strategic internal audit plan for Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (the Authority), we will undertake a LEADER internal audit review.

Objective

The overall objective of this audit was to provide assurance over key processes and controls surrounding the cycle from claims processing through to final payment and project closure. We have also considered the audit trail for grants and, on a sample basis, the adequacy of supporting documentation, as well as processes in place for project on-the-spot and ex spot inspections.

Scope

We will:

- Procedures for review and checking of grant claims when received.
- Processes and controls to ensure payments are appropriate, accurate and only made for approved grant claims.
- The audit trail for grants from applications through authorisation to payment.
- Reconciliations of amounts received and paid to the Authority's financial ledger.
- Processes in place for project completion and closure.
- Follow up on recommendations made in previous years' LEADER audits.

Approach

- Project planning and scoping
- Conducting interviews with staff to gain an understanding of the processes and procedures.
- Identifying and agreeing key risks and controls with management.
- Reviewing the adequacy and effectiveness of established processes.
- Agreeing findings and recommendations with management.

Appendix two

Classification of findings

In determining the priority rankings of internal audit recommendations we consider the potential impact and exposure to the Board versus the probability of occurrence. Detailed below is a summary of our priority ranking matrix.

Rating	Definition	Examples of business impact	Action required
Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> ■ Potential financial impact of more than 1% of total expenditure. ■ Detrimental impact on operations or functions. ■ Sustained, serious loss in brand value. ■ Going concern of the organisation becomes an issue. ■ Decrease in the public's confidence in the Authority. ■ Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty. ■ Life threatening. 	<ul style="list-style-type: none"> ■ Requires immediate notification to the Authority's audit committee. ■ Requires executive management attention. ■ Requires interim action within 7-10 days, followed by a detailed plan of action to be put in place within 30 days with an expected resolution date and a substantial improvement within 90 days. ■ Separately reported to chairman of the Authority's audit committee and executive summary of report.
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> ■ Potential financial impact of 0.5% to 1% of total expenditure. ■ Major impact on operations or functions. ■ Serious diminution in brand value. ■ Probable decrease in the public's confidence in the Authority. ■ Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty. ■ Extensive injuries. 	<ul style="list-style-type: none"> ■ Requires prompt management action. ■ Requires executive management attention. ■ Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months. ■ Reported in executive summary of report.

Appendix two

Classification of findings (continued)

Rating	Definition	Examples of business impact	Action required
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives	<ul style="list-style-type: none"> ■ Potential financial impact of 0.1% to 0.5% of total expenditure. ■ Moderate impact on operations or functions. ■ Brand value will be affected in the short-term. ■ Possible decrease in the public's confidence in the Authority. ■ Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty. ■ Medical treatment required. 	<ul style="list-style-type: none"> ■ Requires short-term management action. ■ Requires general management attention. ■ Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months. ■ Reported in executive summary of report.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	<ul style="list-style-type: none"> ■ Potential financial impact of less than 0.1% of total expenditure. ■ Minor impact on internal business only. ■ Minor potential impact on brand value. ■ Should not decrease the public's confidence in the Authority. ■ Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty. ■ First aid treatment. 	<ul style="list-style-type: none"> ■ Requires management action within a reasonable time period. ■ Requires process manager attention. ■ Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months. ■ Reported in detailed findings in report.



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