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INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority

Internal audit report
Financial controls risk self-assessment

5 October 2011

This report is for:

Action

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Information

Audit committee

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Notice: About this report

This Report has been prepared on the basis set out in our Engagement Letter addressed to Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (“the Clients”) dated 15 June 2011 (the “Services Contracts”) and should be read in conjunction with the Services Contract. 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 Services Contract. This Report is for the benefit of the Clients only. This Report has not been designed to be of benefit to anyone except the Clients. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Clients, even though we may have been aware that others might read this Report. We have prepared this report for the benefit of the Clients alone. This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Clients) for any purpose or in any context. Any party other than the Clients that obtains access to this Report or a copy (under the Freedom of Information (Scotland) Act 2002, through the Clients’ 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, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Clients. In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Clients alone, this Report has not been prepared for the benefit of any other university 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 education sector or those who provide goods or services to those who operate in the education sector.

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Introduction and scope

In accordance with the 2010-11 internal audit plan of Loch Lomond & The Trossachs National Park Authority ("LLTTNPA") and Cairngorms National Park Authority ("CNPA"), as approved by the audit committees, an exercise was performed to corroborate management responses to a control risk self-assessment questionnaire.

Background

The control risk self-assessment ("CRSA") allows organisations to assess the design and effectiveness of controls over risks associated with key processes. The assessment is usually presented in the form of a questionnaire and is completed by 'process owners' who score each control to confirm whether it is operating. The information is then used by management to make an assessment, at a high level, of the internal control environment, based on the responses to the CRSA questionnaire and by taking into account remedial work that is underway to improve controls. Completion of the CRSA was led by David McGregor at LLTTNPA and Alastair Highet at CNPA.

The overall objective of this audit is to provide assurance over key financial systems through reviewing the appropriateness of the design of controls as well as how efficiently and effectively these controls operate. We identified seven areas for inclusion in the CRSA: income and debtors, treasury and cash management, fixed assets, payroll and expenses, financial ledger, accounting for VAT and expenditure and creditors.

Controls were scored on the following basis:

Score	Description
n/a	Control is not applicable
0	Control is not performed
1	Control is rarely performed
2	Control is performed often
3	Control is performed all the time

Introduction and background (continued)

Self assessed scores are summarised in the table opposite.

LLTTNPA has achieved an overall score of 97%

CNPA has achieved an overall score of 96%

Key processes	Authority	Number of assessment questions	Number of applicable questions	Potential score	Actual score	Percentage
Income and debtors	LLTTNPA	15	13	39	36	92%
	CNPA	15	11	33	31	94%
Treasury and cash management	LLTTNPA	15	10	30	30	100%
	CNPA	15	11	33	32	97%
Fixed assets	LLTTNPA	10	10	30	30	100%
	CNPA	10	10	30	27	90%
Payroll and expenses	LLTTNPA	12	12	36	36	100%
	CNPA	12	12	36	36	100%
Financial ledger	LLTTNPA	13	13	39	38	97%
	CNPA	13	12	36	35	97%
Accounting for VAT	LLTTNPA	4	4	12	12	100%
	CNPA	4	-	-	-	-
Expenditure and creditors	LLTTNPA	8	8	24	22	92%
	CNPA	8	8	24	23	96%
Totals and overall average score	LLTTNPA	77	70	210	204	97%
	CNPA	77	64	192	184	96%

Source: Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority

Introduction and background (continued)

Using our experience of the public sector within Scotland, we have compared the self-assessment scores to those provided by our other clients, as detailed below. This demonstrates that both authorities' control frameworks are in line with our wider sector experience.

	Income and debtors	Treasury and cash management	Fixed assets	Payroll and expenses	Financial ledger	Accounting for VAT	Expenditure and creditors	Totals and overall average score
LLTTNPA	92%	100%	100%	100%	97%	100%	92%	97%
CNPA	94%	97%	90%	100%	97%	n/a	96%	96%
Comparable entities	94%	95%	90%	99%	96%	86%	95%	93%

Key findings and recommendations

We did not identify any 'high' or 'critical' risk recommendations.

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.

	Authority	Critical	High	Moderate	Low
Number of internal audit findings	LLTTNPA	-	-	-	-
	CNPA	-	-	-	2
Number of recommendations accepted by management	LLTTNPA	-	-	-	-
	CNPA	-	-	-	2

We have identified two areas where improvements could be made to improve the design and implementation of controls to mitigate the identified risks.

We have highlighted one area in particular where the processes differ between the two park authorities; we believe these differences are reasonable and have not recommended changing either.

Authorisation of sales invoices

At LLTTNPA, sales invoices are reviewed to ensure the accuracy of the invoice before being issued to the customer. This is performed through the sales order form which is then signed as authorised. Of the ten sales invoices selected for testing, all had appropriate authorisation before being issued.

At CNPA, due to the nature of operations, there are significantly fewer sales invoices required than at LLTTNPA. There were only five invoices issued in the period 1 April 2011 – 31 July 2011. None of these sales invoices selected for testing had evidence of review before being issued. Two of the five invoices had the same invoice number. It is recommended that all sales invoices are reviewed before being issued to ensure that the invoice reflects the work completed. Evidence of review should be retained on file.

Recommendation one

Cheques received via post

At LLTTNPA, when cheques are received at reception they are documented in a log book, signed by two signatories, then placed in the safe. To be banked, they are logged out by two signatories and securely collected. A photocopy of every cheque that is banked is retained on file.

At CNPA, cheques are receipted by reception in a mail log before being passed to finance and placed in the safe. However, there is no log of items placed in, or taken out of the safe. It is recommended that a log book, similar to LLTTNPA is retained in order for movements within the safe to be clearly recorded.

Recommendation two

Expense claim forms

At LLTTNPA, expense claim forms are accessible to staff on the intranet. These are completed by the employee electronically and then printed to allow for receipts to be attached and for authorised signatures by the relevant line manager and operational manager.

At CNPA, expense claim forms are not available on the intranet. At the end of each month they are printed by the finance technicians and placed into each employee's pigeon hole for them to complete. While this system is different than that at LLTTNPA, it allows for forms to be printed on the most economical printers, frees up time of staff and management in going through the process to print them and additionally acts as a prompt to complete the forms. On this basis we consider it reasonable that there are different processes at each park.

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>1 Authorisation of sales invoices</p> <p>At CNPA, none of the five sales invoices selected for testing had evidence of review before being issued. In addition, two invoices had the same invoice number.</p> <p>There is a reputational risk that invoices are issued with inaccurate / incorrect information.</p>	<p>It is recommended that all sales invoices are reviewed before being issued to ensure that the invoice is correct. Evidence of review should be retained on file.</p>	<p style="text-align: center;">Low</p> <p>Management will design and implement a system of review and authorisation of sales invoices. Management will also investigate the reasons behind issue of sales invoices with duplicate invoice numbers to determine what, if any, remedial action needs to be taken on systems to avoid any such duplication of references in future.</p> <p>Responsible officer: Finance Manager</p> <p>Implementation date: 31 January 2012</p>

Action plan (continued)

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>2 Cheques received via the post</p> <p>At CNPA, cheques are receipted by reception in a mail log before being passed to finance and placed in the safe. However, there is no log of items placed in, or taken out of the safe.</p> <p>There is a risk that cheques are not appropriately tracked and could go missing.</p>	<p>It is recommended that a log book, similar to that at LLTTNPA is retained in order for movements within the safe to be clearly documented.</p>	<p style="text-align: center;">Low</p> <p>Management will implement a log of items retained in the safe and ensure cheques are signed out by an officer when removed for banking.</p> <p>Responsible officer: Finance Manager</p> <p>Implementation date: 31 January 2012</p>

Appendices

Appendix one

Summary results of testing

We tested, on a sample basis, the responses provided in the questionnaire. Our testing considered:

- the design and implementation of each control i.e. whether the control was designed appropriately to manage stated risks;
- the operating effectiveness of each control i.e. whether the control was operating in line with procedures; and
- whether there are any opportunities for increased efficiency through re-designing, or where appropriate, eliminating steps within the financial process.

Process	Control reference	Control question	Authority	Management score	Internal audit comments
Income and debtors	1.1	Do you have clearly documented, up-to-date delegated authorities for authorising issue of invoices?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	1.3	Are invoices reviewed to check the accuracy of the invoice and ensure the invoice reflects work completed before sending the invoice to the customer?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Control not designed and implemented effectively (recommendation one)
	1.5	Are all invoices sequentially numbered to help identify duplicate invoices?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	2	Control not designed and implemented effectively (recommendation one)
	1.11	Are there established procedures for chasing debt which are understood by all relevant staff?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
	1.12	Are debtors listings produced each period and reviewed for aged debtors and credit balances? Is the balance per the debtors listing agreed to the sales ledger?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	2	Controls designed, implemented and operating effectively.
Treasury and cash management	2.1	Do you have documented and up-to-date delegated authorities for the following activities: - raising and approving investments - Closure of bank accounts - Setting up or changing bank mandates - Approval of mandate wording for new mandates - Individual signatory levels for bank accounts, cheques, transfers and payments	LLTTNPA	N/A	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	2.2	Are all new bank accounts being opened referred to and approved by an appropriate Committee?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	2.8	Are the duties for recording and posting cash/cheque receipts segregated from the banking of the cash and cheques?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
	2.9	Are separate general ledger accounts maintained for each bank account?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	2.10	Are all cash and cheques received in the post recorded, totalled and banked completely on the day of receipt?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	2	Control not designed and implemented effectively (recommendation two)
	2.11	Are all receipts and direct deposits into the bank account promptly matched to sales invoices in the sales ledger?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	2.14	Are all cash and cheques held securely at all times and cheques are not pre-signed?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
	2.15	Is access to any on-line or electronic banking facilitates restricted to authorised individuals? Are access rights to these systems reviewed at least every six months to ensure they are up-to-date?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
Fixed assets	3.4	Do you have a fixed asset register which contains the following information: - Date of acquisition of assets; - Description of assets; - Location of assets; - Cost price of assets; - Useful economic life; and - Depreciation.	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	3.5	Is the Fixed Asset Register updated regularly?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
Payroll and expenses	4.1	Do you have documented and up-to-date delegated authorities for the following activities: - Approval for new joiners and leavers - Approval for changes to employee data - Approval of salary and bonus levels - Approval of overtime payments (where applicable) - Approval of expense claims - Approval for all payroll related payments, and sending records/payments to pension, tax and other third party authorities	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	4.2	Do you monitor compliance with these authorities?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	4.3	Are there segregation of duties in place to ensure that the same person does not carry out: payroll processing; payroll payment authorisation; and changes to employee data. Do you ensure that people approving changes to employee data cannot make the changes in the systems?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	4.4	Is access to all payroll and employee records (physical and electronic) appropriately restricted and in compliance with local and/or international Data Protection requirements?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
4.6		Are changes to payroll standing data, such as salary levels, pension payments, tax rates, only made when there is approval and support for the change?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
4.9		Are controls in place to ensure statutory, pension and other payroll deductions are calculated correctly, comply with local regulations and that remittance due dates are met? Please provide detail of the controls in the 'Comments' column.	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
4.10		Are there documented policies for reclaiming expenses? Are these accessible to staff on the staff intranet?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Control not designed and implemented effectively.
4.12		Are controls in place to ensure that changes to employee data are verified through issuing written confirmation or via the individual's institutions e-mail address?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
Financial Ledger	5.3a	Sales ledger to general ledger sales control account(s) reconciled each month. Where the Sales Ledger automatically updates the general ledger and no reconciliation is performed, do you check the balances in the ledgers agree?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	N/A	Controls designed, implemented and operating effectively.
	5.3b	Purchase ledger to general ledger purchase control account(s) is reconciled each month. Where the Purchase Ledger automatically updates the general ledger and no reconciliation is performed, do you check the balances in the ledgers agree?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	5.3d	Payroll system and/or third party payroll data to general ledger accounts is reconciled each month for gross salaries/wages, tax, benefits, social security/national insurance, pension payments. Where the payroll system automatically updates the general ledger and no reconciliation is performed, do you check the balances in the ledgers agree?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	5.3e	- Bank statements to cashbook/general ledger accounts (for each bank account held) is reconciled each month.	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
	5.4	Are one-off journal entries independently reviewed and approved, and supported by appropriate documentation?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	5.5	Is supporting documentation for all journals kept for future reference?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	5.6	Do you check that the correct amounts have been posted to the correct accounts, for example, through a review of the balance sheet and profit and loss account?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
	5.7	Are suspense accounts (including clearing accounts) cleared each period and evidence kept of corrective actions taken?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
	5.8	Are all assumptions and decisions made during the forecasting/budgeting processes clearly documented?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.
Accounting for V.A.T	6.1	Is there appropriate training for relevant staff members in relation to accounting for VAT?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	N/A	Controls designed, implemented and operating effectively.
	6.2	Are there formal procedures to disseminate VAT guidance from external sources to relevant staff?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	N/A	Controls designed, implemented and operating effectively.
	6.3	At the period-end, is there a logic check or similar process taken to gain assurance that the VAT calculation and return are correct?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	N/A	Controls designed, implemented and operating effectively.

Summary results of testing (continued)

Process	Control reference	Control question	Authority	Management score	Internal audit comments
	6.4	Are period-end calculations subject to review from senior finance staff and/or external VAT consultants?	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	N/A	Controls designed, implemented and operating effectively.
Expenditure and creditors	9.1	Are new supplier accounts opened only after appropriate reference checks have been carried out and appropriate authorisation has been obtained, to ensure the supplier is genuine? Are the reference checks and authorisations documented?	LLTTNPA	2	Controls designed, implemented and operating effectively.
			CNPA	2	Controls designed, implemented and operating effectively.
	9.3	Do you have up-to-date documented delegated authorities for the following activities: - Authorising purchase orders - Authorising payment of invoices - Approval to use new suppliers - Approval of new suppliers accounts on the system - Making changes to supplier master file data/supplier details - Revenue commitments - Authorising use of legal, professional & consultancy firms - Authorising use of the external auditors for non-audit work	LLTTNPA	3	Controls designed, implemented and operating effectively.
			CNPA	3	Controls designed, implemented and operating effectively.

Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with management for prioritising internal audit findings according to their relative significance depending on their impact to the process.

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.

* Materiality is quantified on page 24.

Classification of internal audit 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.

* Materiality is quantified on page 24.

Classification of internal audit findings (continued)

The definitions of the materiality used to classify the impact of our findings are detailed below and are based on the 2009-10 financial statements.

Rating	Definition	Loch Lomond & The Trossachs National Park Authority	Cairngorms National Park Authority
Critical	Potential financial impact of more than 1% of total expenditure	Greater than £80,000	Greater than £50,000
High	Potential financial impact of 0.5% to 1% of total expenditure	Between £40,000 and £80,000	Between £25,000 and £50,000
Moderate	Potential financial impact of 0.1% to 0.5% of total expenditure	Between £8,000 and £40,000	Between £5,000 and £25,000
Low	Potential financial impact of less than 0.1% of total expenditure	Less than £8,000	Less than £5,000



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