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CAIRNGORMS NATIONAL PARK AUTHORITY
Audit & Risk Committee Paper 1 Annex 1 13/11/2015

Cairngorms National Park Authority

Internal audit report 2015

LEADER Report

28 October 2015

This report is for:

Action

David Cameron, Corporate
Services Director

Information

Audit Committee

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Introduction and scope

In addition to the 2014-15 internal audit plan for Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority (“the Authority”), we have undertaken a LEADER internal audit review at management’s request.

The specific objective, scope and approach, as agreed with management, is detailed in appendix one.

Background

The LEADER approach has been an integral component of EU Rural Development Policy since its inception in 1991. LEADER stands for ‘*Liaison Entre Actions de Developpement de l’Economie Rurale*’ and is an initiative to support developmental projects, initiated at a local level and with the intent to stimulate rural economies.

The Authority has received LEADER funding for a number of years and an annual internal audit review is required as part of the Service Level Agreement with the Scottish Rural Payments & Inspection Directorate. Funding for the LEADER program concluded in December 2013 and administration of the grants ran to 2014.

The Authority 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 women’s 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 staff employed by CNPA. The Programme ran until 31 December 2013 and has a value of approximately £2.58 million in European funds. It was open to applications for assistance since April 2008.

In October 2013, a monitoring visit was carried out by Scottish Government’s Agriculture, Food & Rural Communities department, to assess the key processes for the LEADER project scheme. The overall findings noted that the Authority’s LAG had positively responded to the challenges they faced over the previous year and that the documentation was in a fairly good order. However a number of recommendations were raised that the LAG is required to implement to ensure that the financial information on file is complete and accurate which includes the completion of claims checklists and ensuring paperwork is stamped when received. These recommendations were verified as implemented in our May 2014 audit report.

The programme ended in December 2013 and Blake Stevenson was commissioned to evaluate the Cairngorm’s LAG’s delivery of the main aims of the Cairngorms LEADER local Development Strategy. One of the recommendations highlighted the need for consideration of different arrangements for funding of small projects, in order to potentially reduce and simplify the administrative and audit burden for these smaller value projects; as the process is the same for both large and small projects. This has had an impact on the Authority’s LAG, as over a quarter of projects funded by CNPA had a value of £5,000 or under leading to a burdensome level of administration.

We performed internal audits for the period to 30 April 2014 previously and this report relates to the period from 1 April 2014 to 31 March 2015.

Key findings and recommendations

We identified no risk graded recommendations during our review.

Through conducting our review, we did not identify any risk graded findings. A summary of the findings which we found were all areas of good practice and these have been identified below. A full list of the findings are included in this report.

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

We identified no recommendations in respect of the period from 1 April 2014 to 31 March 2015. The scope of the work is set out in appendix one. We selected a sample of grants and verified the oversight process, mathematical accuracy and payment accuracy.

Areas of good practice

Our review identified a number of areas of good practice including:

- project claims were appropriately authorised prior to payment;
- all project files tested were up to date and had a clear audit trail with the required documentation;
- there is a clear audit trail of the methodology to select the sample of projects which are subjected to the “on the spot” and “ex post” inspections; and
- all project files tested had sufficient documentation of the final review and archiving process, in line with the Scottish Government requirements.

Summary of findings

We outline the main findings of the review.

Identified potential risk	CNPA Processes	KPMG finding
Procedures for review and checking of grant claims when received		
<p>Ineligible claims being made.</p>	<p>Each application which is received has to undergo a verification check as to whether it is eligible under the programme, this process results in the application being sent to the LAG and then has to be discussed before being approved.</p> <p>The project applicant receives a Letter of Offer which outlines the specifics for what the grant can be used. This letter outlines when claims can be made and also for what purpose.</p> <p>Before a claim can be made, each project must be certified as a business by the Scottish Government with the designation of a 'BRN' unique business reference number. Without a BRN, a claim is invalid. The BRN is verified with the Scottish Government by the LEADER Programme Manager at the Authority (Alice Mayne) and each project applicant submits a copy of their BRN certificate to the Authority.</p> <p>We reviewed the application process by performing a walkthrough inspecting documentary evidence to support our understanding. The stages included in our walkthrough included receipt of a claim request, producing a letter of offer, verification of other funding sources of claimant, payment, recording of associated financial transactions, file reviews, and the archiving process.</p>	<p>Satisfactory</p>
<p>Incorrect documentation used when applying for a grant claim.</p>	<p>The Authority has created a system whereby each project has a checklist of required evidence which must be completed and included in the file before it can be approved.</p> <p>This document must be signed by an authorised member of staff after having been approved by the grants officer. If the documentation is incomplete, the claim is put on hold until the relevant documents have been submitted and approved.</p> <p>We selected a sample of projects and inspected related supporting documentation evidencing appropriate checks occurred prior to approval. This included verifying that all documents had been authorised by a member of staff at the correct level. No exceptions were noted.</p>	<p>Satisfactory</p>

Summary of findings (continued)

Identified potential risk	CNPA Processes	KPMG finding
Processes and controls to ensure payments are appropriate, accurate and are only made for approved grant claims.		
Unapproved and/or inaccurate payments being made.	<p>Each payment made towards an approved grant claim must be authorised by the Authority and checked against the amount allowed, which is stated in the Letter of Offer. The payment is made as part of a weekly batch run which requires authorisation by two signatories.</p> <p>As part of our testing we selected a sample of LEADER payments and obtained payment authorisation evidence to verify payment was timely, accurate and appropriate. No exceptions were noted.</p>	Satisfactory
The audit trail for grants from applications, through authorisation to payment		
Lack of documentation evidencing grant lifecycle from application through to authorisation and payment.	<p>The audit trail is detailed and is reviewed by the Authority LEADER team at the end of each claim to ensure accuracy and completeness. These documents are retained in a project file and include bank statements, invoices and approvals from each stage of the process.</p> <p>At the application stage the applicant needs to submit a form along with their proposal which outlines the terms and conditions set by the programme. Documentation must be provided (normally in the form of bank statements) evidencing that they have other funding, as a project cannot be solely funded by a LEADER grant. All funding sources are reconciled to the grant application form by the Authority and these documents are retained on the file.</p> <p>Only upon completion of the checklist will payment be authorised. The payment authorisation form must be signed by two separate members of staff with appropriate delegated authority, and the form is sent to Finance for processing before being stamped and signed as paid. All of this documentation is placed in the file serving as the audit trail.</p> <p>We tested a sample of projects, obtaining supporting documentation evidencing that projects are: appropriately approved; project expenditure is eligible; and payments made are appropriately approved, accurate and in relation to eligible project expenditure. We also confirmed that the file review checklist was completed and appropriately authorised and that the financial transactions were accurately recorded. No exceptions were noted.</p>	Satisfactory

Summary of findings (continued)

Identified potential risk	CNPA Processes	KPMG finding
Reconciliations of amounts received and paid to the Authority's financial ledgers		
<p>The financial ledgers do not agree to the bank statements which have been received by CNPA.</p>	<p>The Authority has a process which allows for the ledger, invoices and bank statements to be reconciled and to ensure that expenses are correctly recorded in line with Scottish Government guidance.</p> <p>The reconciliation to invoices and bank statements for amounts received and paid under each project is performed twice; firstly by the Authority LEADER team, and finally by the Authority's Finance team.</p> <p>We selected a sample of projects and inspected invoices, bank statements and financial ledgers to verify the accurate recording of amounts receipted and paid under each project and inspected evidence of the reconciliations performed. No exceptions were noted.</p>	Satisfactory
Processes in place for project completion and closures		
<p>Projects are not closed upon completion and/or there is a lack of evidence of completion.</p>	<p>The Authority has have produced a set of guidelines which all files must be checked against before they can be closed. The review checklist is reflective of Scottish Government requirements and the review is completed at the end of each project by a member of the Authority LEADER team.</p> <p>This final review ensures all projects have the correct documentation held on file in line with Scottish Government requirements.</p> <p>Each project underwent this process in the past few months, and those which have not been put into archive are waiting for the irregularities to be paid to SG so that we can complete the paper trail for the irregularities in the file.</p> <p>For a sample of projects chosen, we inspected evidence of this final review ensuring all required documentation has compiled with the archiving guidance given by the Scottish Government. No exceptions were noted.</p>	Satisfactory

Appendices

In accordance with the 2014-15 internal audit plan for Cairngorm National Park Authority (“the Authority”), we will undertake an internal audit review of workforce management and appraisals.

Objective

The overall objective of this audit is to review the arrangements and processes to ensure that staff resources are adequately managed and developed and to review the extent to which they support achievement of these outcomes.

Scope

The scope of this review will be to:

- procedures for review and checking of grant claims when received;
- processes and controls to ensure payments are appropriate, accurate and are 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 ledgers; and
- processes in place for project completion and closure.

Approach

This review will build on our work in prior years and will include the following on a sample basis:

- review submitted grant claims and ensure calculations are accurate;
- ensure these claims have been appropriately reviewed, approved and checked for compliance with internal requirements;
- ensure payments made are accurate and made only following review and approval of claims;
- test project closure processes and controls; and
- consideration of best practice against comparable organisations.

Appendix two

Classification of 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 £250,000. ■ Detrimental impact on operations or functions. ■ Sustained, serious loss in brand value. ■ Going concern of the Authority 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 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 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 between £100,000 to £250,000. ■ 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 between £25,000 to £100,000. ■ 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 £25,000. ■ 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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