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INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

# Cairngorms National Park Authority

Internal audit report

LEADER review

30 August 2012

This report is for:

**Action**

*David Cameron*, corporate services director

*Alastair Highet*, finance manager

*Patricia Methven*, grants programme manager

**Information**

*Audit committee*

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### Introduction and scope

In accordance with the 2011-12 to 2013-14 strategic internal audit plan of Cairngorms National Park Authority (“the Authority”), as approved by the audit committee, 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 project application through the approval process to claim and final payment. We have also considered the audit trail for grants and, on a sample basis, the adequacy of supporting documentation, from application through to authorisation and payment.

### Background

LEADER is a french acronym, ‘Liason 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 the Authority. This requires consideration of the Authority’s compliance with the service level agreement and the relevant EC Regulations.

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 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 Authority 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 the Authority 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 will take place in September 2012, where any remaining uncommitted funds are expected to be fully utilised.

In June 2011, a monitoring visit was carried out by the Rural Community Rural Policy Team of the Scottish Government (“RCRPT”). This resulted in a “red” risk status, indicating significant risk of process of payment failure and therefore disallowance, to either the Scottish Government, the Lead Partner, or both. Management responded to dispute a number of these findings indicating that no further action was proposed by the Authority. Following a meeting with RCRPT representatives, a number of issues identified were reevaluated resulting in a change in risk status to “amber”. Reviews carried out by the Authority’s previous internal auditor did not identify any significant issues. We completed a review of the process in November 2011, raising three recommendations to improve processes. We note that these did not relate to issues raised by the RCRPT.

### **Service level agreement**

In line with paragraph 5.6 of the service level agreement (“SLA”), between the Scottish Ministers and the Authority, an annual internal audit review is required that includes an assessment of compliance with the requirements of the SLA and the relevant EC regulations.

### **Methodology**

In the absence of any procedures mandated in the SLA, we have reviewed the regulations, technical guidance and SLA and developed testing in line with the terms of reference for the review. Consideration was also given to recommendations arising from our previous review and that from the RCRPT review. Where the RCRPT recommendations were accepted by management, we have only considered these as relevant to the process after 22 December 2011, the date the response was submitted to the RCRPT.

We note the following that limited our review:

- in accordance with the technical guidance, original documentation (e.g. invoices ) are obtained from the claimant, stamped, photocopied and returned, with the photocopy retained on file. All documentation we evidenced on file was therefore photocopies. Due to the nature of this process, we cannot confirm whether or not management has inspected original documentation, however we did not identify any issues with photocopied documentation not being present;
- guidance is ambiguous in a number of areas, such as requiring irregularities to be reported as soon as reasonably practical. Where ambiguity was encountered, we discussed processes with client staff and have considered the results in line with what we consider reasonable; and
- the level of detail required to be held on file is undefined in many areas. For example, the RCRP report notes that eligible expenditure was not broken down to a sufficient level of detail within the application form. There is no further direction provided in the guidance, and so we have considered this based on what we consider reasonable and appropriate.

### Documentation

We note that the files we reviewed were clear and followed the processes as described to us by the LEADER team. All files had copies of completed checklists for both the application stage and claim stage which evidences that the administrative checks required by the guidance were completed. Based on our testing, controls for authorisation of payments were designed, implemented and operating effectively.

In a small number of cases, the documentation had not been filed due to recent submission, but following discussion with the LEADER team, the relevant documentation was found within 'documents awaiting filing'.

### Approval

Three grants were approved and offer letters issued when we undertook our testing. Of these, we considered two grants, 218 and 220, that had been approved since 1 November 2011. Neither of these grants have yet submitted claims. We were able to follow the audit trail from the grant value requested in the application, through to approval by the LAG, the amount included in the offer letter, and the amounts included in the funding schedule.

Grant number 218 had an approval, and so start date of 18 June 2012, but there was no evidence on file of match funding from local business (£300). The offer letter was signed by the organisation and returned to the Authority.

52. LAGs may give approval in principle to signal that LEADER funding may be available when match funding is in place. However, LAGs must ensure that all match funding is confirmed in writing as being in place prior to commencement of the project.

*Source: technical guidance for local action groups and coordinators (version six, April 2012).*

The technical guidance does not appear to define "commencement of the project". Evidence of match funding was requested with the award letter. We discussed this issue with the LEADER team, who advised that any claim submitted would not be processed, if the evidence of match funding had not yet been received. We have therefore deemed this to be reasonable, as the expenditure on the project has not yet commenced.

## Summary of internal audit findings (continued)

### Claims

We tested a sample of payments made during the period. Our testing considered the type of expenditure, appropriateness of supporting documentation and proper authorisation of payment.

Within project 172, £3,000 was awarded for in-kind staff costs. These were fully paid in claim three, dated 13 April 2012. Time sheets were held supporting 138 hours of project management work. The guidance states that the maximum that can be claimed for such project management costs is £16 an hour. This equates to a cost of £2,208 for this project. Discussions with staff found the difference between the £3,000 paid and the in-kind cost is essentially an advance payment.

211. To avoid potential losses, LAGs might consider an advance of a maximum of 15% of the total project costs to enable the claimants to pay the final 25% of the project costs and make the final claim.

*Source: technical guidance for local action groups and coordinators (version six, April 2012).*

The advance is within the limits above, and so appears reasonable. However, there is no audit trail of this on the file. This creates a risk that the hours advanced may not be worked, or that additional timesheets to support the advance may not be provided.

We also note that the timesheets had been signed and authorised by the same person who was also the person the time was being claimed for. There is a risk that the hours submitted are not accurate. We discussed this matter with Authority staff who have been involved in administering this project and it was confirmed that the claim is in line with their knowledge of the project and that additional hours are expected to be worked to cover the advance payment and to ensure the project is completed.

**Recommendation one**

## Summary of internal audit findings (continued)

We also considered project 141 during our review. Issues had been identified with this project prior to the audit and it had been identified that payments had been made for ineligible items in the first claim. Claims two, three and four had not been paid due to queries raised by the Authority and we understand that work is ongoing to identify the full extent of ineligible expenditure. This project received match funding from a number of other LEADER partners.

214. LAGs must, in writing, notify the SG Rural Communities Team as soon as reasonably practical of any suspected breaches, frauds and irregularities.

*Source: technical guidance for local action groups and coordinators (version six, April 2012).*

The process to report irregularities is through the monthly and quarterly submissions to the Scottish Government. This is a joint project, and we understand the LEADER team at the Authority are in the process of contacting the other LEADER teams involved to ensure all irregularities have been identified prior to notifying the SG Rural Communities Team. As there is no definition of “as soon as reasonably practical”, we have deemed this to be reasonable as notification will be provided once the issues can be quantified.

### Inspection

The guidance requires two types of inspections to be carried out; on-the-spot checks and ex-post checks. On-the-spot checks must cover a minimum of 5% of funding claimed from the Scottish Government during calendar year 2011, whilst ex-post checks must cover at least 1% of expenditure for which the final payment has been made and commitments are still ongoing. We have reviewed the calculations and believe the minimum values required have been tested.

The LEADER team has used the same grant sample for each type of check. The guidance does not make any reference to whether or not the samples must be different, therefore we have assumed that this is acceptable.

The LEADER team have not retained documentation as to how the sample was selected.

183.d) For audit purposes, you need to record the methodology used to select which projects to visit.

*Source: technical guidance for local action groups and coordinators (version six, April 2012).*

### **Recommendation two**

## Summary of internal audit findings (cont.)

### Compliance with SLA

We discussed the conditions of the SLA with the LEADER team and considered these conditions against the results of our testing; The LEADER team are not aware of any breaches of the performance targets within the SLA, however we identified that the Authority is not technically in compliance with regard to IT security requirements.

7.3 ...All electronic activities should be carried out in accordance with ISO security compliance levels as prescribed in Commission Regulation (EC) 885/2006.

*Source: service level agreement between Scottish Ministers and CGNPA (version 1.3).*

We note that management considers the cost of this prohibitive for the Authority and that this has been raised in reviews undertaken by the previous internal auditors. Management considers that arrangements within the Authority are in accordance with the relevant regulations, however has not obtained official accreditation. The Scottish Government has previously been made aware of this.

### Register of interests

We note that an up-to-date register of interest for the LAG members is held, last updated in February 2012. This is consistent with the guidance that this is regularly updated.

### Business plan

In accordance with the SLA, a business plan was produced in November 2007. Our discussions with the LEADER team indicate that this was last formally considered and reviewed in August 2010. We note that the cycle of revision of the Park Plan is such that the existing Business Plan is likely to remain largely appropriate, however, this should be formally confirmed.

17. LAGs should review their business plan annually and update as required. The monitoring and amending of a Business Plan against the Strategy will help ensure that LAGs ultimately fund a balance of activities, in line with their local strategy.

*Source: technical guidance for local action groups and coordinators (version six, April 2012).*

**Recommendation three**



## Key findings and recommendations

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

We identified one 'moderate' recommendation and two 'low' 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. Our work is performed on a sample basis and we found that, with the exception of the following findings, that there is a sufficient audit trail in place. 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

Classification of internal audit findings is provided in appendix two.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<b>1 Payments in advance</b>		
<p>There was no evidence to show that a payment made relating to in-kind staff costs was an advance payment. Time sheets for this had been signed as complete and authorised by the claimant.</p> <p>There is a risk that additional hours may not be carried out if it is not clear from the files that a payment in advance has been made. There is also a risk that hours are falsified if timesheets are signed as complete and authorised by the same person.</p>	<p>Clear documentation should be included for all payments in advance and a system implemented to ensure there are adequate follow-up checks to ensure documentation is submitted to evidence expenditure for any advance payments.</p> <p>Expenditure relating to timesheets should not be paid unless they are signed as authorised by another individual, ensuring appropriate segregation of duties.</p>	<p style="text-align: center;"><b>Moderate</b></p> <p>Agreed.</p> <p><b>Responsible officer:</b> Grants manager in conjunction with head of finance and IT.</p> <p><b>Implementation date:</b> October 2012</p>
<b>2 Inspection sample selection</b>		
<p>On-the-spot and ex-post checks had been carried out, but there was no record of the methodology used to select the sample.</p> <p>There is a risk that the Authority is not sampling grants in line with the requirements of the technical guidance if the sample selection cannot be justified.</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 style="text-align: center;"><b>Low</b></p> <p>Agreed.</p> <p><b>Responsible officer:</b> Grants manager.</p> <p><b>Implementation date:</b> December 2012</p>

## Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>3 Business plan</b></p> <p>The business plan has not been formally reviewed since August 2010.</p> <p>This means the Authority is in breach of the technical guidance, although we understand the existing plan is likely to remain largely appropriate to the LEADER programme.</p>	<p>A formal review of the business plan to ensure it is still relevant should be undertaken at the next meeting of the LAG.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Agreed</p> <p><b>Responsible officer:</b> Grants manager</p> <p><b>Implementation date:</b> March 2013</p>

# Appendices

## Objective, scope and approach

In accordance with the 2012-13 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

LEADER is a french acronym, ‘Liason Entre Actions de Developpement de l’Economie Rurale’ and refers to European funding made available to enhance rural communities. 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.

The previous internal auditors carried out a detailed review in 2009 and a follow up review in 2010. We carried out an initial review in November 2011.

The overall objective of this audit is to provide assurance over key processes and controls surrounding the cycle from project application through the approval process to claim and final payment.

### Scope

Based on the objective outlined above, we will focus on:

- procedures for review and approval of initial applications;
- 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; and
- the audit trail for grants from applications, through authorisation to payment.

### Approach

We will review a sample of grants to:

- ensure initial applications were made in line with guidance and that approval / acceptance controls have operated effectively;
- review submitted grant claims and ensure calculations are correct;
- ensure these claims have been appropriately reviewed, approved and checked for compliance with internal requirements; and
- ensure payments made are accurate and made only following review and approval of claims.

## 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"> <li>• Potential financial impact of more than 1% of total expenditure.</li> <li>• Detrimental impact on operations or functions.</li> <li>• Sustained, serious loss in brand value.</li> <li>• Going concern of the organisation becomes an issue.</li> <li>• Decrease in the public's confidence in the Authority.</li> <li>• Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty.</li> <li>• Life threatening.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires immediate notification to the Authority's audit committee.</li> <li>• Requires executive management attention.</li> <li>• 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.</li> <li>• Separately reported to chairman of the Authority's audit committee and executive summary of report.</li> </ul>
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"> <li>• Potential financial impact of 0.5% to 1% of total expenditure.</li> <li>• Major impact on operations or functions.</li> <li>• Serious diminution in brand value.</li> <li>• Probable decrease in the public's confidence in the Authority.</li> <li>• Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty.</li> <li>• Extensive injuries.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires prompt management action.</li> <li>• Requires executive management attention.</li> <li>• 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.</li> <li>• Reported in executive summary of report.</li> </ul>

## 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"> <li>• Potential financial impact of 0.1% to 0.5% of total expenditure.</li> <li>• Moderate impact on operations or functions.</li> <li>• Brand value will be affected in the short-term.</li> <li>• Possible decrease in the public's confidence in the Authority.</li> <li>• Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty.</li> <li>• Medical treatment required.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires short-term management action.</li> <li>• Requires general management attention.</li> <li>• 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.</li> <li>• Reported in executive summary of report.</li> </ul>
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"> <li>• Potential financial impact of less than 0.1% of total expenditure.</li> <li>• Minor impact on internal business only.</li> <li>• Minor potential impact on brand value.</li> <li>• Should not decrease the public's confidence in the Authority.</li> <li>• Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers.</li> <li>• Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty.</li> <li>• First aid treatment.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires management action within a reasonable time period.</li> <li>• Requires process manager attention.</li> <li>• Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months.</li> <li>• Reported in detailed findings in report.</li> </ul>



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