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CAIRNGORMS NATIONAL PARK AUTHORITY
Audit Committee Paper 2 Annex 1 16/03/12

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Cairngorms National Park Authority

Internal audit report
LEADER review

17 February 2012

This report is for:

Action

David Cameron, corporate services director

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Information

Audit committee

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Introduction and scope

In accordance with the 2010-11 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 is to provide assurance over key processes and controls surrounding the cycle from project application through the approval process to claim and final 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. 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 between the Scottish Rural Payments & Inspection Directorate and the Authority.

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 is has a value of approximately £2.58 million in European funds. It has been open to applications for assistance since April 2008. All funds have now been committed for the current programme.

Key findings and recommendations

We identified two 'high' risk recommendations related to expenditure incurred prior to the project commencement date and an absence of evidence to demonstrate that staff costs are directly related to the project.

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	-	2	1	-
Number of recommendations accepted by management	-	2	1	-

Classification of internal audit findings is provided in appendix two.

'Critical' and 'high risk recommendations highlighted to the audit committee

We have reported two 'high' risk recommendations from our work on this assignment related to expenditure incurred prior to the project commencement date and an absence of evidence to demonstrate that staff costs are directly related to the project.

In one case we identified that expenditure claimed and paid by the Authority had been incurred prior to the project commencement date and was not eligible in line with the rules of the LEADER programme.

We also identified that claims made and paid by the Authority were not supported with the required documentation to evidence that staff costs were directly incurred on the project.

Summary of internal audit findings

Action plan ref	Description of internal audit findings	Classification of internal audit findings			
		Critical	High	Moderate	Low
1	<p>Project commencement</p> <p>Our testing reviewed the grant award letter retained on the project file and identified expenditure incurred on project 183 and paid by the Authority prior to the applicant formally agreeing to the grant offer letter and prior to the LAG approval. Subsequently management identified that a revised award letter had not been added to the project file. However, expenditure was still incurred prior to the applicant formally agreeing this revised grant offer letter. This is not in line with the relevant guidance as below.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p>58. The LAG must advise all applicants by email or letter as to the success or otherwise of their application. They should be advised that they may not incur any expense until the terms in paragraph 60 below has been fulfilled.</p> <p>60. The offer of grant letter must be returned to the LAG signed and dated with the applicant agreeing to the terms and conditions before the project commences and/or any claim is paid by the LAG. Receipt of the signed letter constitutes the beginning of LAG committed project expenditure for profiling purposes.</p> </div> <p><i>Source: technical guidance for local action groups and coordinators (version one, December 2010).</i></p> <p>Our testing of project 183 identified invoices, totalling £4,323, where expenditure was incurred after the LAG approval, but prior to the grant letter being signed and returned.</p> <p>The Authority has paid the maximum approved contribution to the project (£10,000).</p>				

Summary of internal audit findings (continued)

Action plan ref	Description of internal audit findings	Classification of internal audit findings			
		Critical	High	Moderate	Low
2	<p>Staffing costs</p> <p>A significant proportion of most project costs relates to staff expenditure. The terms of the LEADER grant require evidence to be provided to support that the expenditure has been incurred and that it relates directly to the project.</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <ul style="list-style-type: none"> • Staffing costs are eligible for personnel directly engaged in a project, whether full or part-time. The job descriptions of all staff employed to deliver elements of the project should accurately summarise their contributing activity. Where staff are involved in the project for only part of their working time, they must complete timesheets (vouched by a line manager) throughout the project’s life, showing the division of time between project and other activity; • Where staff are also engaged in non-project related work, only the portion of staff costs directly attributable to the project should be shown and must be backed up by timesheets or other time recording systems, showing project activity where time spent on eligible activity can be clearly demonstrated; </div> <p><i>Source: technical guidance for local action groups and coordinators (version one, December 2010).</i></p> <p>We tested a sample of claims paid and identified four projects (project numbers: 59, 77 and 121) where no evidence was held to demonstrate that staff costs were directly attributable to the project.</p>				

Summary of internal audit findings (continued)

Action plan ref	Description of internal audit findings	Classification of internal audit findings			
		Critical	High	Moderate	Low
3	<p>Premises costs This expenditure can be claimed provided that costs incurred are additional and relate directly to the delivery of the project .</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p>121. Premises costs actual cost of rent, rates, heat, light, cleaning and service charges associated with the premises where it can be clearly demonstrated that these are directly related to the delivery of the project and are additional, i.e. project expenditure over and above existing operating costs, e.g. if you have to rent additional premises.</p> <p>122. If a part of the premises is used then the amount charged should be apportioned accordingly, for example, floor space occupied. Calculations should show the actual additional annual rental cost to the applicant, the period of project usage, the proportion of the building used for the delivery of the project and the resultant eligible rental cost.</p> </div> <p><i>Source: technical guidance for local action groups and coordinators (version one, December 2010).</i></p> <p>We tested a sample of claims paid and identified one project (project number 54), where a proportion of rental costs were claimed, but no evidence was provided to demonstrate that these costs were directly related to the project.</p>				

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Project commencement		
<p>We tested project 183 and identified supporting invoices provided (total value £4,323) where expenditure was incurred after LAG approval, but prior to the grant letter being signed and returned.</p> <p>Failure to comply with the technical guidance for local action groups and coordinators may result in reputational or financial consequences.</p>	<p>There is a risk that £4,323 of expenditure may not eligible in accordance with the LEADER guidance and we recommend that management engage with the sponsoring department on this matter.</p>	<p style="text-align: center;">High</p> <p>The change in technical guidance from December 2010 to establish the date of the grant offer letter as commencement of the eligible period of project expenditure, as opposed to the previous eligible date being established by the date of LAG approval has created some control issues for the team.</p> <p>Remedial action is being taken as regards the £4,323 of ineligible expenditure. We have also reinforced with staff the date of the offer letter now establishes the commencement of eligibility for project expenditure.</p> <p>Responsible officer: LEADER grant manager</p> <p>Implementation date: Immediate</p>

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>2 Staffing costs</p>		<p>High</p>
<p>We tested a sample of claims paid and identified four projects (project numbers: 58, 59, 77 and 121) where there was no documentation to evidence that staff costs were directly attributable to the project.</p> <p>Failure to comply with the technical guidance for local action groups and coordinators may result in reputational or financial consequences.</p>	<p>Management should ensure that all claims submitted require evidence to show that staff costs are directly attributable to the project e.g. timesheets showing time spent on each project or job descriptions / contracts of employment.</p>	<p>Recommendation accepted. We recognise the need to demonstrate / evidence applicability of all costs charged against a project and funded by LEADER. Copies of staff contracts have been requested for all posts associated with these projects.</p> <p>All projects in question resulted in the creation of new posts entirely directed at project delivery, therefore there are no instances of timesheets being required to split staff activity. The LEADER Co-ordinator will ensure all contracts and/or job descriptions are held as evidence for project delivery where appropriate to the nature of projects.</p> <p>Responsible officer: LEADER grant manager</p> <p>Implementation date: Immediate</p>

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>3 Premises costs</p> <p>We identified one claim (project number 54), where a proportion of rental costs were claimed, but no evidence was provided to demonstrate that these costs were directly related to the project in line with the technical guidance.</p> <p>Failure to comply with the technical guidance for local action groups and coordinators may result in reputational or financial consequences.</p>	<p>Management should ensure that all claims submitted require evidence to demonstrate that premises costs are directly attributable to the project.</p>	<p style="text-align: center;">Moderate</p> <p>Recommendation accepted. The LEADER Co-ordinator will ensure that evidence is in place to substantiate the costs of premises included in project funding as an eligible cost in line with the technical guidance. In this specific instance costs are defined in the application and a copy of an associated email discussion at the outset of the project on file.</p> <p>Responsible officer: LEADER grant manager</p> <p>Implementation date: Immediate</p>

Appendices

Objective, scope and approach

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

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.

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 applications;
- procedures for review and checking of grant claims when received; and
- processes and controls to ensure payments are appropriate, accurate and are only made for approved grant claims.

Approach

We will review a sample of grants paid between 23 October 2010 and 22 October 2011 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 were correct;
- ensure claims were appropriately reviewed, approved and checked for compliance with internal requirements; and
- ensure payments made were 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"> • 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.

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.



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