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Cairngorms National Park Authority
Review of Grant Awards
Internal Audit 2005/2006
March 2006
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Appendices

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Section 1 - Executive summary

1.1 Introduction

This review of Grant Awards is part of our coverage of core financial areas as required in the audit plan approved by the Audit Committee. **Appendix A** shows the detailed scope and objectives of our review.

1.2 Background

Cairngorms National Park Authority (CNPA) commits approximately £1.6m of expenditure to the Operational Plan, £155k of which is assigned to the Integrated Grants Programme. The Authority also leads support to the Cairngorms Leader+ programme, a European funded project awarding grants to community groups with the aim of supporting thriving communities by focussing on helping the local communities make best use of natural and cultural resources.

There are 3 main schemes for applications for funding: the Integrated Grant Programme (IGP), the Leader + programme and operational plan expenditure, some of which may be committed in the form of grants to other groups and organisations if that method is the best way of achieving objectives or outcomes.. All grants, regardless of size are administered by a Project Manager.

The IGP is supervised by a Programme Manager, employed to oversee all small and medium sized grant applications. This programme has been in place since August 2005 and has been allocated a budget of £315k over 2 years. This relates to all claims with a project value of between £500 and £5k, which meets at least one corporate goal and a minimum of one of the 6 subject headings within the programme. The IGP offers 90% of funding (45% from CNPA and 45% from Leader +) on the provision that the applicant can source the remaining 10% of funding. This scheme can also be used for medium sized grants of between £5k and £20k, which is developed through the Leader + programme. The IGP has a standard application form in place, which requires to be authorised by the Head of Strategic Policy and Programme Management. An appraisal checklist is also completed by the Project Manager detailing whether the application meets a standard set of criteria. When the project has been approved and a signed offer letter returned to CNPA, funds can be released. This is generally performed at the end of a project, when a project report has been submitted to the Project Manager. Receipts and invoices must support all claims prior to the release of funds.

The Leader + programme is a European funding initiative and is overseen by a CNPA employed Leader + Programme manager. In 2005/06 to date, approximately £290k of applications has been approved, relating to applications of £5k to £20k. The Leader + Programme operates in a similar manner to the IGP in that a standard application form is in place. When completed, the application is passed to the project appraisal group for approval or refinement. The project is then presented to the Leader + Local Action Group (LAG) for approval. The group is constituted of a number of local community members as well as other public bodies and has a CNPA representative attending. Once the project has been approved a joint letter of offer from Leader + and CNPA is issued confirming funding. This requires to be returned and signed by the applicant prior to the release of funds. Any claims, which are made, require a progress update and appropriate receipts or invoices to be submitted.

Section 1 - Executive summary (continued)

1.2 Background (continued)

Any expenditure, which cannot be linked to either of the schemes, is applied for through general expenditure. Any applications of less than £5k can be submitted on a purchase requisition form. These are authorised by the Head of Group and then paid out based on an invoice or claim submitted by the applicant.

All applications of over £5k require to be submitted on an expenditure justification form detailing cost projections, option analysis and risk assessment relating to the project. Applications of between £5k and £10k can be authorised by the relevant Head of Group, however all applications over £10k require to be authorised by the Finance Committee and by the Scottish Executive. The Finance Committee meets on a quarterly basis and in order for applications to be dealt with on a timely basis; applications are forwarded by email to the Finance Committee members. Responses are returned to the Finance Manager to collate and 3 of the 5 members are required to approve in order for the application to progress. Once approval has been sought from the Finance Committee, a summary of the application is emailed to the Scottish Executive. Only once approval has been returned can the funding be granted.

1.3 Approach

The following approach was used in order to complete this review:

- Discussions were held with the Finance and Programme Managers, and with Project Managers to document the various systems in place to manage the application, evaluation and award of grant funding;

- An evaluation of mitigating controls against risks was performed in order to identify key controls and areas for testing;

- Testing was performed on a sample basis on all key controls identified.

Section 1 - Executive summary (continued)

1.4   Conclusion

The following table details our overall assessment of the control environment against each audit objective:

Objectives	Overall Assessment	Report Ref.
Only viable projects are funded by CNPA	***	**2.1; 2.4**
All grants are authorised by appropriate personnel	***	**2.2**
All grants requests are supported by appropriate financial and non-financial information	***	**2.3**
Regular financial reports are received on the progress of projects funded by CNPA	****	
The progress of projects is reported to CNPA and considered by senior personnel	***	**2.5**

Key: ****   Arrangements accord with good practice and are operating satisfactorily (recommendations are in respect of minor matters).
***   Adequate arrangements are in place, but certain matters noted as requiring improvement.
**   Arrangements in place offer scope for improvement.
*   Inadequate level of control and unacceptable level of risk.

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Section 1 - Executive summary (continued)

1.4   Conclusion (continued)

In overall terms, the control environment was found to be adequate, although some areas of weakness were identified. These were as follows:

- 2 out of 15 expenditure applications had no justification form on the project file. Projects were valued at £8k. *(Recommendation 2.1)*;
- From a sample of 15 grant applications, one offer letter could not be located and 2 had not been signed by the applicant. The total value of these grants was £15k. *(Recommendation 2.2)*.
- 3 of the 15 applications selected for testing had no project files and these were only created by the Project Managers when requested. A further 3 files could not be located in the central filing room but had not been signed out by the member of staff. *(Recommendation 2.3)*;
- Approval documentation received from the Finance Committee and the Scottish Executive is held in the Finance Manager's inbox and is not retained on the paper file. *(Recommendation 2.4)*.
- There is a lack of consistency between actual titles of projects and their description in the Operational Plan, making project files difficult to trace. *(Recommendation 2.5)*;

Our detailed findings and recommendations are within **Section 2** of this report. In total, we identified **five** recommendations as follows:

Description	Priority	Number
Major issues that we consider need to be brought to the attention of Management and the Audit Committee	1	0
Important issues which should be addressed by management in their areas of responsibility	2	2
Minor issues where management may wish to consider our recommendations	3	3
Key		**5**

1.5   Acknowledgements

We would like to take the opportunity to thank all of the CNPA staff involved in assisting us in this audit. The findings and recommendations in this report were discussed with the Head of Corporate Services at the conclusion of our fieldwork.

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Section 2 - Detailed findings and recommendations (continued)

2.1   Retention of Applications

Finding	Recommendation	Rationale
All applications for funding through the operational plan should include a requisition form or an expenditure justification form. From a sample of 15 grant applications selected for testing, 2 grant awards had no expenditure justification form or requisition form on file. The total value of the 2 projects was £8k.	All applications for funding which go through the Operational Plan should be supported by an expenditure justification form, currently required by the financial regulations for expenditure in excess of £5k. This should be retained on the project file.	Inappropriate expenditure may be made on projects, which do not meet CNPA criteria.

Management Response		Responsibility/ Deadline	Priority
Agreed that all planned expenditure in excess of £5k should be supported by an expenditure justification form, in line with financial regulation requirements. We are looking into the establishment of a central control of expenditure justification forms to ensure Finance is aware of projects being progressed and enabling retention of a central record of all EJ forms.		Finance Manager to reinforce Financial Regulations and implement any revised procedures by end February 2007.	Two

Section 2 - Detailed findings and recommendations (continued)

2.2   Letter of Offer

Finding	Recommendation	Rationale
All grants, which are awarded funding, include a requirement that the letter of offer is returned, signed by the applicant, prior to funds being released. From a sample of 15 grants selected for testing, 1 case was noted where there was no letter of offer on file. A further 2 letters of offer had not been signed by the applicant. The total value of these awards was £15k.	Project managers should ensure that all grant award letters of offer are signed by the applicant prior to the initial release of funds. In addition, they should also ensure that the signed letter is added to the project file.	Without the applicants' signature, agreeing to funding there is a risk that recovery of funds may not be possible in the event of a dispute.

Management Response		Responsibility/ Deadline	Priority
Recommendation Agreed. Corporate Services staff will issue a notice to all Heads of Group and relevant staff advising and reinforcing that this practice should be adopted.		Finance Manager by end September 2006.	Two

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Section 2 - Detailed findings and recommendations (continued)

2.3   Management of Project Files

Finding	Recommendation	Rationale
All grant applications require to be centrally filed and signed out when removed from the filing room. A sample of 15 files were selected for testing. The following issues were noted surrounding filing arrangements: • 3 grant applications did not have project files assigned when requested. 2 of the 3 files were only created by the Project Managers when files were requested for testing purposes. • A further 3 applications which were requested could not be located in the central filing room. These were with members of staff but had not been signed out.	Files should be created for projects as soon as an intent to apply is established. As a result, all relevant documentation can be added to the file. All files should also be signed out of the filing room when used. Administrative staff should perform an audit each month, selecting a practical sample of files missing from the central filing room. Files should be reconciled to the file sign-out book to ensure the control is operating effectively. Any variances should be reported to management.	A large amount of time can be wasted searching for files which have not been signed out of the filing room. In addition, when project files are not created, there is an increased risk of relevant documentation being mislaid.

Management Response		Responsibility/ Deadline	Priority
Recommendation agreed. Corporate Services staff will issue a notice to all Heads of Group and relevant staff advising and reinforcing that this practice should be adopted. We will also develop and implement a regular audit process of central files and sign-out book.		Business Services Manager by end of December 2006.	Three

Section 2 - Detailed findings and recommendations (continued)

2.4 Retention of Authorisation Documentation

Finding	Recommendation	Rationale
All grant applications in excess of £10k require to be authorised by the Finance Committee and by the Scottish Executive. The Finance Committee only meets on a quarterly basis and so all applications are emailed to the 5 members of the Finance Committee by the Finance Manager. Responses are then relayed to him and applications are then emailed to the Scottish Executive. Only when an approval email is returned from them can the monies be released for the grant award. It was noted that the Finance Manager retains all applications and responses in his Inbox; however, these are not printed as part of the paper audit trail and retained on file.	All responses from the Finance Committee and the Scottish Executive should be printed and retained in the project file.	In the event of a problem with the system and all emails are lost, there is no evidence that projects have been approved by the Finance Committee and by the Scottish Executive.

Management Response	Responsibility/ Deadline	Priority
Recommendation agreed. It should also be noted that we are in the process of changing working practices and delegated limits with the Finance Committee and discussing changes to the Scheme of Delegation with the Scottish Executive. However, the principle of maintaining a hardcopy of all relevant correspondence for audit purposes is accepted.	Finance Manager / end September 2006	Three

Section 2 - Detailed findings and recommendations

2.5 Reconciliation of Projects to the Operational Plan

Finding	Recommendation	Rationale
The Finance Manager maintains an Operational Plan control sheet detailing all projects and the level of expenditure for them. A sample of 15 funding lines were selected for testing using the title of the project as a basis for locating files. It was noted that on 5 occasions, the actual project title was different to that in the Operational Plan, increasing difficulty in locating files.	Management should ensure that the actual title of a project is documented in the Operational Plan. Files should be able to be easily traced from the operational plan to a project file held in the central filing system.	As a large amount of CNPA staff spend a lot of time out of the office, it is important that files can be easily located. It is difficult to trace files from the operational plan when the titles do not reconcile. Without consistency in the naming of projects there is also a risk that expenditure will be allocated to the incorrect financial code.

Management Response	Responsibility/ Deadline	Priority
Agree that a system is required to ensure files can be easily reconciled and matched back to operational plan.	Finance Manager by end March 2007.	Three

Section 3 - Statement of responsibility

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

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Appendix A - Scope and objectives

Scope

The Authority awards a substantial amount of grants to external parties. Our review will assess the controls in place to ensure that expenditure on grants is valid, appropriate and will further the aims of the Cairngorms National Park Authority.

Objectives

The review will cover the following control objectives:

- Only viable projects are funded by CNPA;

- All grants are authorised by appropriate personnel;

- All grants requests are supported by appropriate financial and non-financial information;

- Regular financial reports are received on the progress of projects funded by CNPA;

- The progress of projects is reported to CNPA and considered by senior personnel.

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Appendix B - Personnel interviewed

- **David Cameron – Head of Corporate Services**

- **Denby Pettitt – Finance Manager**

- **Dicken Higgins – Programme Manager**

- **Nick Halfhide – Head of Group – Strategic Policy and Programme Management**

- **Fiona Newcombe – Head of Group – Land Management**

- **Patricia Hamilton – Programme Manager, Leader +**

- **Bob Grant – Senior Outdoor Access Officer**

- **John Thorne – Economic Development Officer**

- **Peter Crane – Senior Visitor Services Officer**

- **Diane Buchan – Finance Assistant**

- **Mandy Mathieson – Finance Assistant**