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The Cairngorms National Park Authority

Internal audit report
LEADER review

15 May 2014

This report is for:

Action

David Cameron, Corporate
Services Director

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 claims processing through to final payment and project closure. We have also considered the audit trail for grants and, on a sample basis, the adequacy of supporting documentation, as well as processes in place for project on-the-spot and ex spot inspections.

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 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 Authority staff. The Programme ran 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.

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 Cairngorms 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.

The programme ended in December 2013 and Blake Stevenson and Scotland’s Rural College were 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 Cairngorm’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 an internal audit for the period to 31 August 2013 previously and this report relates to the period from September 2013 to April 2014.

Key findings and recommendations

We have identified no recommendations in the course of our work.

Recommendations noted in the previous review, for the period to 31 August 2013 have been implemented.

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.

	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 September 2013 to 1 April 2014. The previous audit report recommendations, for the period to 31 August 2013, have been implemented. 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

We have identified the following areas of good practice through the course of our review:

- the annual confirmation certificate was submitted to the Scottish Government by the specified deadline on 4 November 2013, ensuring that the authority was not in breach of the guidance;
- 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” checks;
- all payments tested in our sample of claims were properly authorised prior to payment;
- all project files tested were up to date and had a clear audit trail with the required documentation.

Status of 2013-14 prior review recommendations

The recommendations identified for the period to 31 August 2013 have been implemented.

We set out each of the recommendations and actions implemented.

Finding(s) and risk	Recommendation(s)	Current status of management action and revised plan for implementation
1 Payment Authorisation Moderate		
<p>Testing revealed one case where a payment of more than £5,000 had been processed by Finance even though the payment authorisation form had not been signed off by the Corporate Services Director.</p> <p>There is a risk that Finance processes inappropriate payments.</p>	<p>Management should ensure that there are appropriate controls in place so that payments are not processed by Finance if not authorised properly.</p>	<p>Implemented</p> <p>KPMG performed follow-up testing on the grant payments from 1 September 2013 to 30 April 2014 and found no instances where the payment was not appropriately authorised by the necessary individual.</p>
2 Inspection sample selection Low		
<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>Implemented</p> <p>We reviewed the December inspections and found there was a clear record of the methodology used to select both the random and the risk based sample in line with the technical guidance.</p>
3 Annual Confirmation Certificates Low		
<p>Testing showed that the annual confirmation certificate was submitted after the deadline set by the Scottish Government.</p> <p>This means that the Authority was in breach of the guidance, although we understand that the Scottish Government is aware of that and has not raised an issue with the Authority.</p>	<p>Management should ensure that annual confirmation certificates are submitted to the Scottish Government by the deadline.</p>	<p>Implemented</p> <p>The annual confirmation certificate was submitted on 30 October 2013 prior to the 4 November 2013 deadline.</p>

Appendices

In accordance with the 2013-14 internal audit plan for Loch Lomond & The Trossachs National Park Authority and Cairngorms National Park Authority ("the Authority"), we performed an internal audit review of LEADER funding in August 2013. We have agreed with management to undertake a subsequent review of the LEADER programme in addition to our work in 2013.

Objective

LEADER is a French acronym, 'Liaison 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 overall objective of this audit is to provide consider 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 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;
- arrangements for review and approval of final claims, including on-site and ex-post checks; and
- processes in place for project completion and closure.

Approach

We will review a sample of grants and perform the following:

- review submitted grant claims and ensure calculations are correct;
- 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 arrangements for review and approval of final claims; and
- test project closure processes and controls.

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 2% 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. ■ 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 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 1% to 2% 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.

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 0.5% to 1% 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 0.5% 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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