



cutting through complexity™

Scottish Karate Governing Body Limited

Development audit report

Level of audit: streamlined

Prepared by KPMG for **sportscotland**

22 October 2013

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1.1 Purpose and use of this report

sportscotland has engaged KPMG to conduct an assessment of the specified Scottish Governing Body of Sport (“SGB”). The purpose of the report is to assist sportscotland in determining the extent to which governance arrangements are suitable to safeguard public investment and deliver outcomes. This report is also intended to be used as a tool to assist the SGB in its continued development. KPMG has provided observations on certain fiduciary and reputational matters to assist sportscotland and recommendations which are intended to support the SGB in its continued development.

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1.2 Overview of the award and SGB

SGB	Scottish Karate Governing Body Limited (“SKGB” or “the SGB”)
Site visit address	Doges Templeton on the Green 63 Templeton Street Glasgow G40 1DA
Description of SGB	SKGB is the national governing body for karate in Scotland. It is an incorporated company limited by guarantee and as such does not have any share capital. It has responsibility for both sport and traditional karate in Scotland and for international karate when Scotland competes as an independent nation. SKGB organises and hosts the Scottish Open Championship, the Scottish Kata Championship and the Scottish Kumite Championship each year. These all represent a variety of demographics within karate, with the Scottish Open Championship being an international tournament. SKGB's mission is to: <ul style="list-style-type: none"> ■ develop Scottish karate as a force within the European and world stage, participating in and achieving results in all areas and at all levels; and ■ maintain and continuously develop a pathway in karate for all participants in traditional and sport.
Award amount	£35,000 (2013-14)

1.3 Summary of good practice identified

Section four includes examples of good practice which we identified at the SGB. These include:

- regular and well documented board meetings, with directors having clearly defined roles;
- good use of internet communication tools such as the website and social media to improve contact with members; and
- a comprehensive set of policies, with a particularly robust child protection policy and child protection committee to support this.

1.4 Overall assessment and summary of critical and high priority findings

Based on the scope of our assessment set out in our Services Contract dated 3 July 2012 and the definitions of critical and high priority findings, outlined in section two:

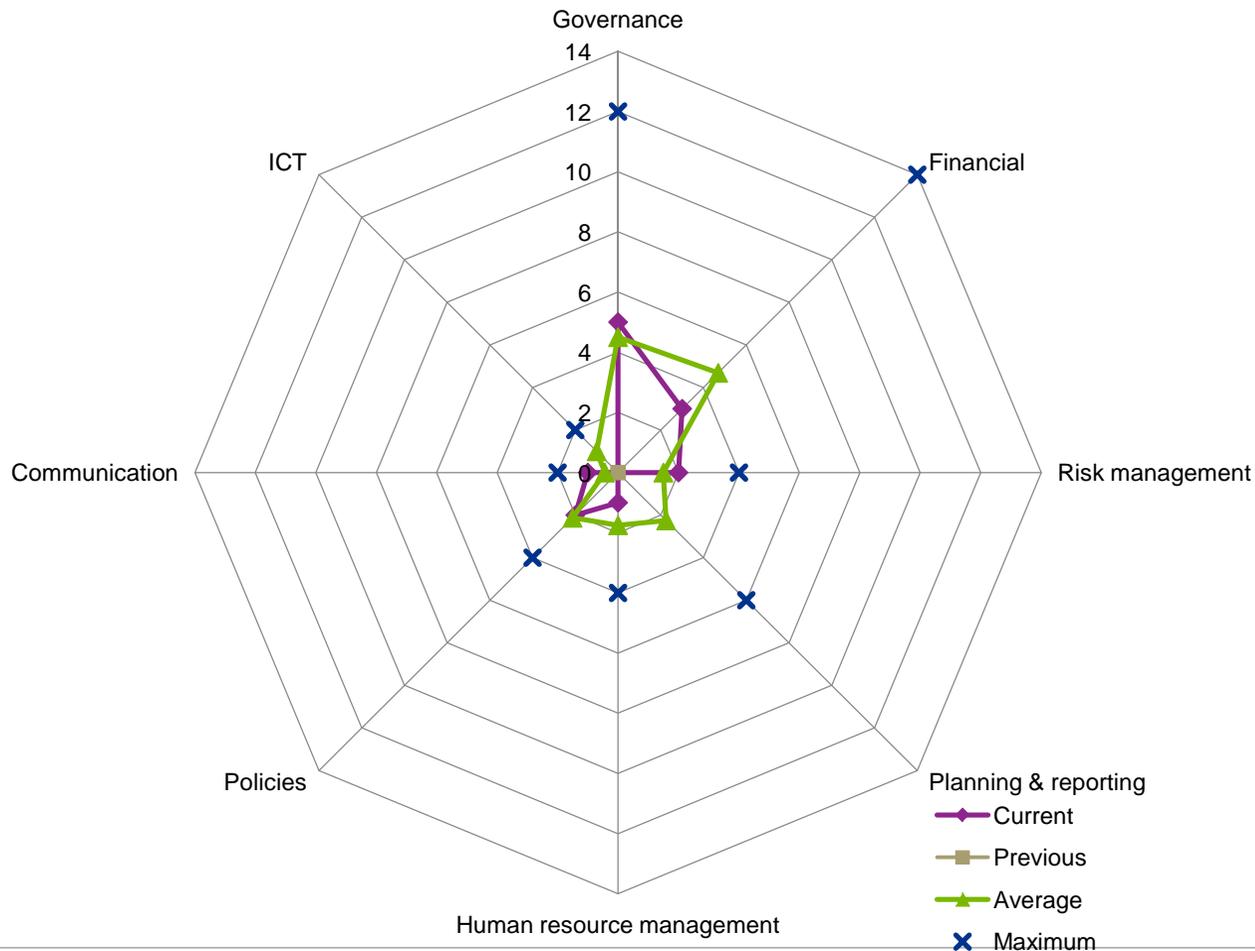
	<p>Satisfactory.</p> <p>There are no substantive comments in respect of the SGB activities, processes or controls as reviewed. Low priority findings may have been observed during our assessment.</p>
	<p>Satisfactory (with comments).</p> <p>Matters were identified which do not impact the overall satisfactory rating, but for which documentation or procedures should be improved. Low and Medium priority findings may have been observed during our assessment.</p>
	<p>Performance improvement needed.</p> <p>Improvements are necessary in one or more significant areas. No, or limited critical financial or operating weaknesses were observed during our assessment. However, High priority financial and/or operating weaknesses were observed.</p>
	<p>Unsatisfactory.</p> <p>There are deficiencies in significant areas which cannot be readily resolved or which have given rise to loss or error. Critical financial or operating weaknesses may have been observed during our assessment.</p>

No **critical** or **high** priority findings relating to the organisation were noted. Section four gives details of all findings, together with our recommendations.

1.5 Overall summary

Each recommendation identified in section four is allocated a nominal score based on the formula below to chart an overall result.

Higher numbers represent increased risk as a result of control weakness or recommendations. The following chart also includes an 'average' line which includes the results of all SGB audits undertaken to date.



Grade of recommendation	Score multiple per finding
Critical	5
High	3
Moderate	2
Low	1

2.1 Approach

Our assessment consisted of reading documentation, financial records and information relating to the SGB, and interviews with SGB personnel and other individuals where relevant. This included a three-day site visit at the main offices of the SGB. Appendix A includes a list of the documentation reviewed and people interviewed.

Our assessment focused on eight areas to which each of our findings is related:

- 1) Governance: assessment of the SGB’s operational status, structure, purpose, objectives and ability to achieve these objectives.
- 2) Financial management: assessment of the financial status, viability, and capacity to manage the funding.
- 3) Risk management: assessment of arrangements for risk management, risk register, mitigation and monitoring.
- 4) Planning and reporting: assessment of the SGB objectives and monitoring of these objectives.
- 5) Human resource management: assessment of policies and procedures relating to members of staff and their implementation.
- 6) Policies: review of policies and procedures, assessing whether they are up to date, complete and in line with best practice.
- 7) Communication: assessment of how the SGB communicates with key stakeholders, the communication strategy and any partnership or sponsorship arrangements.
- 8) Information and communication technology: assessment of information systems, their appropriateness to monitor information, design of general IT controls and arrangements for business continuity.

2.2. Definitions

The findings and recommendations in this report have a priority associated with them. The table below indicates the definition of each level of priority.

Priority	Definition
Low 	Findings that do not pose unacceptable a negative fiduciary and/or reputational risk to sportscotland but which the SGB may wish to consider.
Medium 	Findings that do not pose unacceptable a negative fiduciary and/or reputational risk to sportscotland but which would be advisable for the SGB to address to improve their systems, processes or procedures.
High 	Financial or operating weaknesses that pose unacceptable negative fiduciary and/or reputational risk to sportscotland but where mitigating actions could be put in place to suitably reduce the risk to acceptable levels.
Critical 	Financial or operating weaknesses that pose unacceptable negative fiduciary and/or reputational risk to sportscotland and where necessary mitigating actions are either not possible or highly challenging for the SGB to implement.

3.1 Organisation and grant objectives

Area	Comments
SGB activity outcomes	<p>The objectives set by sportscotland relate to strong partner investment and development of SKGB. These are taken from the SKGB annual plan.</p> <p>The annual plan is developed from the four year plan, which is divided in to the following priorities:</p> <ul style="list-style-type: none"> ■ coaching; ■ Active Schools involvement; ■ club protection; ■ club accreditation; ■ sports development; ■ anti-doping; ■ referees, officials and volunteers development; ■ internationality; and ■ continuous improvement.
SGB objectives	<p>SKGB's main objectives, outlined in the four year plan, are to:</p> <ul style="list-style-type: none"> ■ grow steadily over the next four years; ■ continue to be recognised as the Scottish Governing Body for traditional and sport karate in Scotland; ■ implement the Child Protection Accord throughout SKGB; ■ develop Scottish karate as a force within the European and world stage, participating in and achieving results in all areas and at all levels; and ■ enable access to all members by participation in youth development programs and skills enhancement activities.

3.1 Organisation and grant objectives (continued)

Area	Comments
Key performance indicators	<p>The long term outcomes set by sportscotland which align with the objectives SKGB have set in the annual plan are:</p> <ul style="list-style-type: none"> ■ strong partners: achieve foundation level equality standard; and ■ development: increase membership by 2% to 11,900. <p>KPIs are monitored on a regular basis, with updates against these presented at each board meeting. Progress is reported to sportscotland regularly, with face to face meetings between the partnership manager and executive administrator three to four times per year.</p>
Main areas of alignment	SKGB's main objectives / KPI's are consistent with those of sportscotland .

The vision of SKGB is to foster, encourage, develop and promote traditional and sport karate throughout Scotland. This will be achieved by publicising membership benefits, sustaining and expanding membership levels, training officials and coaches, maintaining good governance, engaging with the active schools programme, securing funding and implementing policies. SKGB will focus on its key priorities outlined in the four year plan, which are underpinned by specific objectives and targets in the annual plan.

3.2 Financial summary and objectives

The SGB's financial position is summarised below.

Year ended 31 March	2013	2012
	£	£
Income	85,411	106,357
Expenditure	(81,912)	(104,290)
Operating surplus	3,499	2,067
Interest receivable	-	-
Surplus on ordinary activities before taxation	3,499	2,067
Taxation	(543)	-
Surplus for the period	2,956	2,067
Fixed assets	4,708	4,195
Current assets		
Stock	160	160
Cash at bank	37,444	29,977
Creditors (amounts falling due within one year)	(25,743)	(20,150)
Net current assets	11,861	9,987
Total assets less current liabilities	16,569	14,182
Accruals and deferred income	(2,047)	(2,616)
Net Assets	14,522	11,566
Reserves (profit and loss account)	14,522	11,566

Financial statements for the year ended 31 March 2013 were prepared by external accountants. The SGB has net current assets of £11,861 as at 31 March 2013.

Income and expenditure has significantly decreased from 2011-12 to 2012-13. This is due to a reduction in **sportscotland** funding for high performance athletes, together with associated expenditure, which has also reduced. SKGB has budgeted for a profit of approximately £800 for 2013-14. SKGB continues to forecast a small profit for the year ending 31 March 2014, which will contribute to reserves.

3.3 Value for money and procurement capacity and effectiveness

SKGB does not have specific value for money ("VFM") and procurement objectives.

Description of Primary Objectives	Key Performance Indicators	Baseline at start of the proposed grant	Targets and dates
N/A	N/A	N/A	N/A

SKGB has not established any VFM indicators. There is a tradition of using suppliers from within the sport for karate supplies in order to receive discounts. This demonstrates some commitment to obtaining value for money.

VFM indicators should be developed to ensure best value is obtained. Indicators may include ratios in respect of governance costs, compared with investment in programmes or staff costs as a percentage of turnover. Relevant indicators should include an annual target and baseline measurement and should be subject to regular monitoring and consideration should be given to benchmarking indicators against similar SGBs.

Recommendation 9

4.1 Findings and recommendations

Our findings and recommendations in relation to the eight focus areas described in section two are set out below.

No.	Priority level	Area	Key findings and recommendations	Management response
1		Governance	<p>Board members are appointed by election at the AGM every three years. Positions are often uncontested so the board has remained static in recent years. A static board could mean SKGB is missing an opportunity for a new perspective on developing the sport. There is also a risk that board members may step down; there is no process in place to train new directors to replace them.</p> <p>The current board composition comprises five members who all have a wealth of experience in karate. Without an independent director there is a risk that SKGB has a narrow focus, and could be missing areas of good practice from outside the sport.</p> <p>No formal skills gap analysis has been undertaken. The board may be unaware of the skills it lacks, or skills it would lose were current board members to step down. The board has informally identified that there are limited marketing and communication skills to promote the sport. There are no women on the Board. SKGB is beginning the recruitment process to appoint a marketing director and a director to be responsible for the interests of women in karate.</p> <p><i>It is recommended that:</i></p> <ul style="list-style-type: none"> ■ <i>the board appoints at least one independent director, who is not affiliated with karate to ensure objective insight forms part of the decision making process;</i> ■ <i>formal succession planning is implemented to identify the key roles, responsibilities and skills that would need to be fulfilled should a board member step down, and how to train incoming board members to fulfil these;</i> ■ <i>the board should identify skills gaps to elect individuals with the desired skills. Applicants should be considered for appointment based on the expertise they offer and the implication this has on the skills gap identified as a result of the board's assessment; and</i> 	<p>Agreed. A job description has been finalised for a marketing director and a director for the interests of women in karate. The recommendations will be implemented by the next AGM. An assistant administrator has been appointed as a back up to the role of executive assistant. It has also been agreed to identify back up positions for all directors to help succession planning.</p> <p>Responsible officer: Chairman</p> <p>Date: May 2014</p>

4.1 Findings and recommendations

No.	Priority level	Area	Key findings and recommendations	Management response
			<ul style="list-style-type: none"> the board continues with its intention to appoint a marketing director and a director for the interests of women in karate. We recognise that SKGB has been unsuccessful in their recruitment of a marketing director, and will begin to re-advertise for both of positions in September 2013. 	
2		Governance	<p>The executive administrator has an SKGB office within his house. He is paid £1,200 per annum for this, which is below market value and is decided each year at the AGM. This appears reasonable, but there is no formal contract or similar documentation to formalise this agreement. There is a risk that if anything were to happen to the premises it would be unclear whether SKGB or the executive administrator would have responsibility for this.</p> <p><i>It is recommended that the agreement between SKGB and the executive administrator for the use of office space should be formalised to ensure both parties are clear on responsibilities. This should include the minimum notice period for both parties as well as any payments due for rent or damages.</i></p>	<p>Agreed. This will be formalised going forward, commencing with the next agreement of this payment at the next AGM,</p> <p>Responsible officer: Chairman</p> <p>Date: May 2014</p>
3		Governance	<p>There is no induction or appraisal process for employees or board members. There is a risk that strengths and weaknesses of these individuals will not be recognised and adequately addressed.</p> <p><i>It is recommended that an appraisal process is developed for employees and board members. Appraisals should be conducted annually and include goals for development as well as a discussion of performance throughout the year.</i></p>	<p>Agreed. This will be developed in time for the appointment of a new director at the next AGM.</p> <p>Responsible officer: Chairman</p> <p>Date: May 2014</p>

4.1 Findings and recommendations (continued)

No.	Priority level	Area	Key findings and recommendations	Management response
4		Governance	<p>SKGB has three sub-committees; the sports committee, the refereeing committee and the child protection committee. Each committee comprises one board member, and a number of volunteers with experience and expertise in the area. There are no terms of reference for the subcommittees. There is a risk that any new committee members would be unsure on the exact role and structure of the committee. There is also a risk that the sub-committees do not meet the needs of strategic plan if they do not have clear objectives.</p> <p><i>It is recommended that the board develops terms of reference for each sub-committee. These should outline the roles and responsibilities of the committee, the structure of the committee, who the members should be, how often the committee should meet, the role of the committee chair and the frequency of reporting to the board.</i></p>	<p>Agreed. To be implemented before new Board and committee members are appointed at the next AGM.</p> <p>Responsible officer: Chairman</p> <p>Date: May 2014</p>
5		Risk management	<p>The board is aware of the risks facing SKGB and risk management is discussed at each board meeting which demonstrates the board's commitment to risk management. There is a risk management policy, but SKGB does not maintain a risk register. A template risk register and risk register guidance document are contained within the risk management folder. If risks are not identified and monitored by the board, the impact of unforeseen events could be greater.</p> <p><i>It is recommended that the risk register is completed to ensure risk management is embedded within the SGB. This would allow board members to identify, record and monitor risks and progress towards their mitigation. The risk register should be regularly reviewed by the board.</i></p>	<p>Agreed. The risk register will be updated by the end of the financial year and will be reviewed in Board meetings.</p> <p>Responsible officer: Board of directors</p> <p>Date: 31 March 2013</p>

4.1 Findings and recommendations (continued)

No.	Priority level	Area	Key findings and recommendations	Management response
6		Human resource management	<p>There is one full time member of staff employed as an executive administrator. Their role has significantly expanded since being employed part time in 2004. The job description has not been updated to reflect the new responsibilities. If roles and responsibilities are not clearly documented, there is a risk that they will not be appropriately followed.</p> <p><i>It is recommended that the job description for the executive administrator is updated to more accurately reflect his roles and responsibilities.</i></p>	<p>Agreed. We are working with the sportscotland HR function to update this and review our HR policies. This will be complete by the end of the financial year.</p> <p>Responsible officer: Executive administrator</p> <p>Date: March 2014</p>
7		Financial management	<p>SKGB cheques require two signatories: the company secretary and one other board member. The current board members are registered with the bank as authorised signatories. The signatories listing within the financial procedures manual has not been updated since 2008. During this time a board member has resigned and another has been appointed.</p> <p><i>It is recommended that the financial procedures manual is updated to include the correct authorised signatories. This should be updated by the board whenever a new director is appointed or leaves the board.</i></p>	<p>Agreed. This is currently being updated and will be reviewed for approval at the next Board meeting.</p> <p>Responsible officer: Executive administrator</p> <p>Date: November 2013</p>
8		Financial management	<p>Due to the small number of staff, certain financial procedures, such as bank reconciliations, are not reviewed until the accounts are prepared by an external consultant. This increases the risk that misstatements are not identified throughout the year. The financial procedures manual states that the bank reconciliations should be reviewed at board meetings.</p> <p><i>It is recommended that segregation of duties are enhanced in respect of financial management. Bank reconciliations should be presented to the board of directors during the board meetings. This would allow them to be reviewed before the year end, and brings the process in line with the financial procedures manual.</i></p>	<p>Agreed. Bank reconciliations will be presented to the Board at each Board meeting, starting in November 2013.</p> <p>Responsible officer: Executive administrator</p> <p>Date: November 2013</p>

4.1 Findings and recommendations (continued)

No.	Priority level	Area	Key findings and recommendations	Management response
9		Financial management	<p>A budget is created by SKGB at the start of the financial year, including a breakdown of income and expenditure for the year. The board is aware of significant movements as comparison to budget is reported at each board meeting. There is no longer term financial forecast to support the four year plan. High level expected income and expenditure for the next two years has been reported to sportscotland.</p> <p>There is evidence of value for money (“VFM”) consideration at board level, but this is informal. There is a risk that additional costs are incurred or VFM not achieved.</p> <p><i>It is recommended that:</i></p> <ul style="list-style-type: none"> ■ <i>VFM indicators are developed to ensure best value is obtained. Indicators may include ratios in respect of governance costs, compared with investment in programmes or staff costs as a percentage of turnover. Relevant indicators should include an annual target and baseline measurement and should be subject to regular monitoring and consideration should be given to benchmarking indicators against similar SGBs; and</i> ■ <i>a long term financial forecast is developed to cover the period of time included in the four year plan. This should include a high level breakdown of income, expenditure and profit/ loss for the four years. This could be adapted from the sportscotland application for funding document.</i> 	<p>Agreed. This will be implemented for upcoming financial years.</p> <p>Responsible officer: Executive administrator</p> <p>Date: March 2014</p>

4.1 Findings and recommendations (continued)

No.	Priority level	Area	Key findings and recommendations	Management response
10		Communication	<p>SKGB does not have a marketing or communication strategy. There is an opportunity to develop communication within the SGB and potentially increase sponsorship income. SKGB could receive more feedback from clubs and members from enhanced communications. This would identify any issues that may not be passed to association representatives and improve member service by demonstrating a proactive approach to taking members' opinions on board.</p> <p><i>It is recommended that SKGB develops a communication strategy to outline its marketing and communication goals for the year. This could include introducing an annual feedback exercise to be sent to clubs. We recognise that there is currently no marketing expertise on the board, so this could be a task for the marketing director once appointed.</i></p>	<p>Agreed. This will be a key responsibility for the marketing director. Recruitment will begin for this position in October 2013, with the hope of appointing a candidate in the next AGM,</p> <p>Responsible officer: Marketing director</p> <p>Date: May 2013</p>

4.1 Findings and recommendations (continued)

No.	Priority level	Area	Key findings and recommendations	Management response
11		Policies	<p>SKGB has a comprehensive suite of policies with high quality equality and child protection policies. There are opportunities for improvements to some policies and to achieve best practise.</p> <p>The SGB was unaware of Anti Bribery legislation. There is a risk that the legislation is not given appropriate consideration, exposing the SGB to legal risks. SKGB do not have a whistle blowing, data protection or health and safety policy. There is an example club health and safety policy which could be adapted and passed on to associations.</p> <p><i>It is recommended that:</i></p> <ul style="list-style-type: none"> ■ <i>anti-bribery legislation is presented to the board, together with details of its assessed impact of the organisation. An anti-bribery and corruption policy should be established to include this legislation. This could be combined with the existing fraud policy;</i> ■ <i>a whistle blowing policy should be introduced to include the process for whistle blowing, the type of situations that would require whistle blowing and guidance on confidentiality and support for . This could be combined with the fraud policy;</i> ■ <i>the health and safety policy should be adapted and implemented within associations. This should be added to the association agreement to ensure compliance;</i> ■ <i>a data protection policy is developed to ensure SKGB follows the requirements of the Data Protection Act; and</i> ■ <i>these policies should be made available on the SKGB website.</i> 	<p>Agreed. Policies will be updated and presented at the next Board meeting for approval.</p> <p>Responsible officer: Executive administrator</p> <p>Date: November 2013</p>

4.2 Good practice

We noted the following examples of good practice at the SGB.

No.	Area	Key findings
1	Governance	<p>The board is made up of highly experienced individuals who appear committed to their roles. The board holds regular meetings which are clearly documented with evidence of discussions and challenge. Directors' roles are clearly defined, and there is clear separation between the Chair and President.</p> <p>Board members sign a comprehensive code of conduct, including a conflicts of interest policy. A register of interests is maintained for each board member and there is a standing item on board meeting agendas to declare any interests.</p> <p>There is a democratic process for electing board members at the AGM every three years.</p> <p>SKGB has well organised subcommittees with a wealth of expertise. The subcommittees report to the board on a regular basis.</p> <p>SKGB has a strong affiliation process for associations. There is a detailed membership form, which must be renewed annually and includes adherence to all SKGB policies. Associations are 'provisional members' for their first year of membership, meaning they can attend AGMs, but do not have voting rights. This allows SKGB to monitor new associations and ensure they are following SKGB procedures before they can influence important decisions at the AGM.</p>
2	Risk Management	<p>SKGB demonstrates its commitment to risk management through regular discussions at board level. Succession planning is being introduced to combat the key risk of losing the executive administrator.</p> <p>The executive administrator receives email updates from a variety of bodies, such as the World Karate Federation, to keep informed of any changes in relevant laws or regulations.</p>
3	Planning and reporting	<p>SKGB has a detailed annual plan which is clearly linked to the priorities listed in the 2013-17 four year plan.</p> <p>The annual plan includes long term objectives, as well as specific quantifiable targets. Each target has a responsible officer and deadline to allow easy monitoring of targets.</p> <p>SKGB and sportscotland targets are clearly aligned and progress is reported to sportscotland on a regular basis.</p>
4	Human Resource Management	<p>SKGB has human resource policies which are appropriate for a body of its size. There are detailed codes of conducts, specific to board members, coaches and referees. All volunteers must additionally sign up to a 'volunteers charter,' similar to a contract, to ensure adherence to SKGB policies.</p>

No.	Area	Key findings
5	Financial Management	<p>The SGB involves an external consultant to ensure it has the required financial expertise. The external consultant is used to draw up the annual accounts, as well as aid in the production of a financial procedures manual for the SKGB finance policies.</p> <p>The Executive Administrator provides finance reports at each board meeting. These include a profit and loss account, balance sheet and comparison of actual income and expenditure to budget. There is evidence of discussion and challenge of these by board members.</p>
6	Communication	<p>SKGB is heavily involved in the Active Schools programme, which will promote karate in Scotland to young children. They have prepared a promotional video as part of this, which is also available on the SKGB website.</p> <p>SKGB uses a variety of cost effective means of communication, such as email, the website and a Facebook page. This ensures a wide audience can be targeted for little cost. The website is regularly updated by the Executive Administrator and is experiencing approximately 120,000 visits a year.</p>
7	Policies	<p>The SKGB child protection and equality policies are of a high standard and have recently been updated. In both cases, external consultants were involved to ensure the policies were best practice. SKGB liaises frequently with Children 1st to ensure its child protection procedures are up to date. It also makes use of Children 1st workshops to provide training for coaches and ensure high levels of safety for children in the sport.</p>

5. Appendix A – Sources of information

In performing this assessment:

We communicated with the following individuals:

- *Jim Miller, Executive Administrator and Company Secretary*
- *Paul Giannandrea, Chairman*

We reviewed the following documents, books and records:

- *Organisation structure chart*
- *Articles of association*
- *Financial statements and chairman's reports in respect of the years ended 31 March 2010, 31 March 2011 and 31 March 2012*
- *August 2013 finance report*
- *Board meeting minutes (March 2013)*
- *Directors' code of conduct including conflict of interest disclosure form*
- *Directors' role description documents*
- *Executive administrator employment contract and job description*
- *Association and club application forms*
- *Perkins Slade insurance agreement*
- *sportscotland application for investment and investment agreement*
- *Human resource policies*
- *Finance procedures manual*
- *Example health and safety policy, equality policy, child protection policy, disciplinary policy, anti-doping policy, risk management policy*
- *SKGB website and Facebook page*
- *Bank statements and a sample of purchase invoices for June 2013*
- *2013-14 budget*
- *2013-14 annual plan*

- *2013-2017 four year plan*
- *April-June 2013 bank reconciliation*
- *Job description for assistant administrator*
- *Volunteer's charter*
- *World Karate Federation rules and regulations*
- *Codes of conduct for directors, volunteers, coaches and officials*
- *Coach application form*
- *Disclosure Scotland code of practice*
- *SKGB profile document*
- *Complaints procedure*
- *2013 AGM agenda*
- *2012-13 association listing*
- *Child protection officer application form*
- *Risk register template*
- *Risk register guidance document*
- *Data protection registration certificate*
- *Active Schools promotional video*



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