Cairngorms National Park Authority

INTERNAL AUDIT REPORT

LEADER Review

July 2017

LEVEL OF ASSURANCE	
Design	**Operational Effectiveness**
Substantial	**Substantial**

BDO

CONTENTS

REPORT STATUS	
Auditors:	Andrew O'Donnell
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DISTRIBUTION LIST	
David Cameron	Director of Corporate Services
Audit Committee	

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		
Design	🟢	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	🟢	The controls that are in place are being consistently applied.

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)	
High	🔺
Medium	🟧
Low	🟢
Total number of recommendations: 0	

OVERVIEW

Background

The LEADER programme is a European Union initiative which aims to increase support to local rural community and business networks to build knowledge and skills, and encourage innovation and co-operation in order to tackle local development objectives. LEADER is part of the Scottish Rural Development Programme 2014-2020, for which Cairngorms National Park Authority (CNPA) is an Accountable Body.

The Service Level Agreement (SLA) between Scottish Government and Accountable Bodies for LEADER Local Action Groups (LAGs) requires an annual internal audit of the functions and services undertaken by each Accountable Body in fulfilment of their role, including an internal audit assessment of the extent of observance by the Accountable Body of the requirements of the SLA.

In the case of Cairngorms LEADER, the SLA was signed on 14 August 2015, supplemented by a side letter from the Authority setting out its intention to vary information management elements of the SLA dated 11 September 2015.

As part of the 2017-18 Internal Audit plan, it was agreed that Internal Audit would assess the processes in place to ensure compliance with the requirements of the SLA.

EXECUTIVE SUMMARY

The SLA defines the responsibilities and obligations, duties and accountabilities of both the Scottish Government and CNPA as a result of CNPA's role as Accountable Body and delivery partner in the Scottish Rural Development Programme for the period 2014-20. The obligations of CNPA as Accountable Body are categorised into a number of sections on the SLA, including retention of documentation, performance targets, conflicts of interest, gifts and hospitality, data sharing and financial arrangements. Within the financial arrangements, for example, the SLA outlines that CNPA is obliged to make claims for eligible expenditure in accordance with the format set out in relevant guidance within 20 working days of the end of the quarter.

A number of controlled processes have been developed by CNPA to ensure compliance with the SLA. For example, a Finance Timetable has been developed which records the required dates for the submission of key forms to the Scottish Government LEADER Team to ensure claims are made for eligible expenditure within 20 working days of the quarter end, in accordance with the SLA.

A technical checklist requires to be completed which assesses all applications on a number of criteria, including strategic fit, return on investment and equality. The inclusion of supporting documents in the application, such as financial statements and cash flow forecasts, is recorded on the checklist, which requires to be approved by the Programme Manager or Chair of the Accountable Body.

A Scoring Sub-Group has been established to review project applications against a defined scoring matrix in advance of Cairngorms Local Action Group (CLAG) meetings. The CLAG is responsible for the oversight of the Local Development Strategy (LDS) and the Business Plan to ensure that LEADER investments are made in accordance with the Business Plan to achieve the outcomes defined in the LDS. The Sub-Group is comprised of five members of the CLAG and is responsible for providing scores to the CLAG in order to form the basis of discussion and funding decisions on project applications. The CLAG holds the final responsibility for determining project scores, either agreeing the scores for each element suggested by the Scoring Sub-Group or agreeing variations from those scores suggested by the Sub-Group. The scores adopted by the CLAG represent the final approved scores for each project.

The scoring matrix has been included at Appendix IV of this report and categorises assessment criteria between Eligibility and Technical criteria. The Eligibility criteria assesses project applications on a number of areas, such as strategic fit and return on investment, and the Technical criteria assesses project applications on areas such as organisational competence and robust delivery plans. Additional guidance is provided on the scoring matrix for the scores which can be awarded for each assessment criteria. For example, a score of '0' for organisational competence represents no evidence being available to support the relevant criteria, whereas a score of '3' represents that the organisation has a well established track record of project delivery in this area.

The technical checklist and scoring process must be completed and approved within 2 months of receipt of an application, in accordance with the CLAG Operational Plan.

EXECUTIVE SUMMARY

OVERVIEW

The LAG Programme Claims Guidance outlines a number of eligibility criteria which must be satisfied by CNPA when submitting a claim to Scottish Government for running costs and animation costs. Running costs can include the following:

- Direct staff costs

- Travel and subsistence

- Office running service costs

- Insurance

- Office running material costs

Animation costs can include the following:

- Publications including newsletters, leaflets and signage

- Events including workshops, networking and conferences

- Stakeholder Engagement

Applicants are required to complete a LEADER Grant Claim and Milestone report when requesting funds from CNPA in relation to project expenditure. Progress against approved milestones is recorded on the report, in addition to narrative detailing the project activities during the reporting period which support the milestone progress. Documents such as bank statements, receipts and timesheets are required to be attached to the form where relevant in order to evidence the expenditure.

The SLA outlines a number of requirements in relation to use of the Scottish Government's LARC IT system when processing applications. Requirements include the storing of all records, documents and electronic data relating to any projects considered on the system, including scoring sheets, which must be completed, signed and filed on LARC.

EXECUTIVE SUMMARY

OVERVIEW

Scope and Approach

The scope of this review was to assess whether efficient, effective and well controlled processes have been developed to ensure compliance with the service level agreement. We assessed whether project and funding applications are considered and scored in accordance with a clearly defined process and are approved appropriately and on a timely basis. We assessed whether claims submitted to Scottish Government by CNPA are in line with eligibility criteria and whether claims submitted to CNPA by applicants are reviewed and approved appropriately prior to payment. We also assessed whether grant claim regulations are being complied with and whether Scottish Government's LARC IT system is being used effectively in accordance with the SLA.

Our approach was to review key documentation in relation to LEADER and interview key staff to assess whether the design of the controls is appropriate and these controls are operating effectively and as described.

As part of our testing, we selected a sample of projects and test that the key controls are operating effectively. We also performed a detailed walkthrough of a formally approved LEADER project from initial application through to the claiming of the grant.

Good Practice

We are pleased to report that efficient, effective and well controlled processes have been developed to ensure compliance with the SLA. Project and funding applications are considered and scored in accordance with the process clearly defined in the technical checklist and scoring sheet. Claims submitted to CNPA by applicants are recorded on a LEADER Grant Claim and Milestone report and are reviewed and approved appropriately prior to payment, in accordance with the Scottish Government's LEADER Claims Guidance.

Our detailed walkthrough of a formally approved LEADER project confirmed that the application had been assessed and approved in accordance with the clearly defined process and that the one claim made by the applicant at the time of testing had been approved appropriately.

Conclusion

We are able to provide substantial assurance over the design and operational effectiveness of the controls in place to ensure compliance with the requirements of the SLA.

EXECUTIVE SUMMARY

RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE
☑   Efficient, effective and well controlled processes may not have been developed to ensure compliance with the service level agreement.
☑   Project and funding applications may not be considered and scored in accordance with a clearly defined process.
☑   Applications may not be approved appropriately and on a timely basis.
☑   Claims submitted to Scottish Government by CNPA may not be in line with eligibility criteria.
☑   Claims submitted to CNPA by applicants may not be reviewed and approved appropriately prior to payment.
☑   Grant claim regulations may not be complied with.
☑   Scottish Government's LARC IT system may not be used effectively in accordance with the SLA.

OBSERVATIONS

1. LARC system

The SLA outlines a number of requirements in relation to use of Scottish Government's LARC system when processing applications, including the storing of all records, documents and electronic data relating to any projects considered on LARC, including scoring sheets, which should be completed, signed and filed on LARC.

Whilst we noted that the system is not being used in accordance with aspects of the SLA (as CNPA LEADER staff are manually assessing and signing all records prior to storing these on LARC), section 4.3 of the SLA states that: "All administrative functions, monitoring checks and case management must be recorded via the Leader Actions in Rural Communities system (LARCs) or equivalent until such time as LARCs is operational".

CNPA outlined limitations of the LARC system to deliver aspects of the programme locally in a letter to the Scottish Government, including that a number of applicants cannot use the system as their own broadband access is limited, and are dependent on the CNPA LEADER team acting on their behalf in uploading documents onto LARCs. Scottish Government is therefore aware of these issues.

The Accountable Body Group also prepared a paper in March 2017 which expands on the limitations of LARC and the limitations of the SLA. The limitations discussed by the group include the lack of print and PDF functionality of the system, in addition to the inability of all LAG members to access the system simultaneously when assessing applications at LAG meetings as a result of variable broadband provision at the venues used for meetings.

Management believe that, as a result of these limitations, the LARC system is not yet operational and that the Authority therefore is in compliance with section 4.3 of the SLA.

2. Claims submitted to Scottish Government by CNPA

The LAG Programme Claims Guidance outlines a number of eligibility criteria which must be satisfied by CNPA when retrospectively submitting a drawdown claim to Scottish Government for grant payments made to the applicant. However, as no claims had been submitted to Scottish Government at the time of testing, we were unable to test whether these were being submitted in line with the eligibility criteria.

3. Grant Claim and Milestone report

Applicants are required to complete a LEADER Grant Claim and Milestone report when requesting funds from CNPA in relation to project expenditure. As part of our testing, we found that one report was signed by the Programme Manager in January 2017 after the claim was paid in December 2016. However, we recognise that the requirement to complete the report was only introduced in January 2017 upon the revision of the Scottish Government's LEADER Claims Guidance.

APPENDIX I – STAFF INTERVIEWED

NAME	JOB TITLE
David Cameron	Director of Corporate Services
Sam Wiaczek	LEADER Programme Manager
Adam Howarth	LEADER Programme Supervisor

BDO LLP appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and cooperation.

APPENDIX II – DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	**Design Opinion**	**Findings from review**	**Effectiveness Opinion**
Substantial 🟢	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 🟦	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 🟧	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 🔺	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance		
High 🔺	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium 🟧	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low 🟢	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX III – TERMS OF REFERENCE

BACKGROUND ▶

The Service Level Agreement (SLA) between Scottish Government and Accountable Bodies for LEADER Local Action Groups (LAGs) requires an annual internal audit of the functions and services undertaken by each Accountable Body (AB) in fulfilment of their role, including an internal audit assessment of the extent of observance by the Accountable Body of the requirements of the SLA.

In the case of Cairngorms LEADER, the SLA was signed on 14 August 2015, supplemented by a side letter setting out its intention to vary information management elements of the SLA dated 11 September 2015.

Cairngorms National Park Authority (CNPA) has subsequently outlined its views of the limitations of the LEADER LARCS IT system to deliver aspects of the programme locally in a letter to the Scottish Government. The Accountable Body Group has also prepared a paper which expands on the limitations of LARCS and the limitations of the SLA.

During 2016-17 Internal Audit carried out a review of the LEADER administration arrangements in place within CNPA, and provided substantial assurance over the design and operational effectiveness of the controls in place to ensure compliance with the requirements of the service level agreement and effectively administer the LEADER programme.

At the time of writing this specification, there have been 20 LEADER projects formally approved by the LAG and 19 grant awards made, with one project awaiting approval from the Scottish Government. Six of the seven claims which have been submitted to the LAG have been paid to the applicants, with one being assessed prior to approval. .

PURPOSE OF REVIEW ▶

The purpose of this review is to provide management and the Audit Committee with a level of assurance that CNPA is maintaining effective processes and is complying with the requirements of the service level agreement.

APPENDIX III – TERMS OF REFERENCE

KEY RISKS ▶

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

- Efficient, effective and well controlled processes may not have been developed to ensure compliance with the service level agreement;

- Project and funding applications may not be considered and scored in accordance with a clearly defined process;

- Applications may not be approved appropriately and on a timely basis;

- Claims submitted to Scottish Government by CNPA may not be in line with eligibility criteria;

- Claims submitted to CNPA by applicants may not be reviewed and approved appropriately prior to payment;

- Grant claim regulations may not be complied with; and

- Scottish Government's LARC IT system may not be used effectively in accordance with the SLA.

APPENDIX IV – PROJECT SCORING MATRIX

Eligibility Criteria	Assessment Criteria	Weighting	High (3)	Medium (2)	Low (1)	None (0) (no evidence to support the relevant criteria)
	Strategic Fit Extent to which the project aligns and delivers against the LDS and is integrated with other related activity and other EU, National and local strategies		There is clear fit with at least 2 LDS aims and clear links with related activities or strategies	There is fit with 2 LDS aims however there is minimal link with related activity or strategies	There is fit with 1 LDS aims. No link with related activity or strategies	
	Return on Investment Extent to which the project will deliver positive economic benefits – including leverage of funding, economic growth and rural development		Clear demonstration of a high value contribution and significant economic benefits including leverage against level of investment, economic growth and rural development	Demonstrated return on investment proportionate to level of investment sought.	Return on investment will be low and added value is unclear for economic rural development	
	Equality Extent to which the project has considered and can demonstrate a positive impact for groups identified as vulnerable to exclusion or hard to reach in the LDS (and its Equality Impact Assessment) - (e.g. young people, elderly and disabled, business community, carers often women, communities which have had little engagement with CLLD, people on low wages, ethnic minority groups)		Clear demonstration of equality consideration in project development and strong, measurable and direct impact for vulnerable and hard to reach groups	Demonstration of equality consideration in project and measurable impact for vulnerable and hard to reach groups	Some impact demonstrated for vulnerable and hard to reach groups but not directly measurable	
	Knowledge sharing Extent to which the project stimulates knowledge sharing between sectors and individuals		Project demonstrates a clear plan for knowledge sharing to inform project design, delivery and future rural development which crosses sectors and supports peer to peer learning	Project involves an element of knowledge sharing between more than one sector and between individuals in the development, delivery or evaluation phase	Project identifies an element of knowledge sharing between individuals in delivery of the project	
	Fostering Innovation * Extent to which the project is fostering novel approaches and ideas.		The application of the approach or idea is novel and/or the learning will be applied more widely.	The application of the approach or idea has the potential to stimulate wider application beyond the project.	The approach or idea is not particularly novel.	

Assessment Criteria	Weighting	High (3)	Medium (2)	Low (1)	None (0) (no evidence to support the relevant criteria)
Partnership and collaborative working Extent to which project has identified, engaged and involved appropriate delivery partners to maximise impact and ensure broad based buy in and support to avoid duplication of effort		The project is delivered by a comprehensive stakeholder partnership across sectors to ensure effective project delivery and demonstrate best practice	The project is delivered through a partnership of stakeholders to ensure successful delivery	The applicant has identified partners which have agreed to engage in delivery of the project to ensure successful delivery	
Legacy Extent to which the project will deliver impact/benefit beyond the funding period		The project will have impact beyond the funding period	The project is likely to have impact beyond the end of the funding period	The project will deliver minimal impact	
Engagement and support Extent to which project has comprehensive stakeholder buy in, participation or ownership.		There is strong rationale and evidence of stakeholder analysis with key stakeholders supportive of and involved in the project	There is sound and adequate rationale and evidence (consultations, statistics, research) that key stakeholders have been engaged and involved and support the project	There is some limited anecdotal or out of date evidence that key stakeholders have been engaged and involved and support the project	
Meeting a Need or Demand Extent to which the project is responding to evidence of need or gap in provision		The project has presented strong and comprehensive evidence of need or gap in provision	The project has presented significant evidence of need or gap in provision	The project has presented limited evidence of need or gap in provision	
Additionality Extent to which the need for LEADER investment is evidenced in terms of allowing the project to proceed and enhancing the project through the LEADER approach and investment		Clear and compelling evidence that the project cannot proceed without LEADER investment	Evidence that the project requires LEADER investment to deliver desired impact and outcomes	Evidence that LEADER investment will enhance project delivery	
Community/Public Benefit		Evidence that the benefit to the community and other organisations will outweigh the benefit of the project to the applicant.	Evidence that the project will benefit multiple local community members and organisations other than the applicant	Evidence that the project will benefit additional residents or organisations other than the applicant	

Technical Criteria	Assessment Criteria	Weighting	High (3)	Medium (2)	Low (1)	None (0) (no evidence to support the relevant criteria)
	Organisational Competence Extent to which the right level of resources with the necessary skills and organisational capability are in place and effective		The organisation has a well established track record of project management/delivery in this area and has evidenced its capability to deliver	The organisation has a known track record of project management/delivery in this area and has presented some evidence of capability to deliver	The organisation has presented some evidence of experience and capability to deliver in this field	
	Robust delivery plans Extent to which the project plan (deliverables, timescales and milestones) can be relied upon		The project has robust plans in place and there are sound reasons to expect that delivery performance will be good	The project plans are mostly in place and reliable and any identified delivery issues are believed to be manageable	The project plans are partially in place but significant delivery issues are apparent and not mitigated within the plan	
	Outputs Degree of certainty that the projected outputs for the project are deliverable, measureable and achievable		There are clear and convincing reasons to trust the project projections as presented	The assumptions underpinning the project projections are well founded	There is limited evidence presented that projections are deliverable, measureable or achievable	
	Exit Strategy Extent to which there is a clear and sustainable exit strategy in place and there is no risk of grant dependency whilst ensuring the legacy remains		There is a robust and convincing Exit Strategy with no risk of dependency	There is a clear Exit Strategy and organisational dependency is unlikely	The Exit Strategy for this project is unclear and there is a possible risk of dependency	
	Displacement/distortion Extent to which there is evidence of distortion and/or displacement and extent to which distortion and/or displacement will be managed		All Distortion/Displacement issues have been fully explored and mitigated	Displacement/distortion issues evident however clear mitigation strategy in place and community benefit justification given	Distortion/Displacement and some justification given	
	Organisational compliance Is the project compliant with all relevant rules and regulations?		There is clear evidence of compliance	The project appears compliant	There are some concerns/unknowns in the field of compliance	

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