

Cairngorms National Park Authority

INTERNAL AUDIT REPORT

LEADER Programme Administration

September 2016

LEVEL OF ASSURANCE

Design	Operational Effectiveness
Substantial	Substantial



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REPORT STATUS	
Auditors:	Andrew O'Donnell
Dates work performed:	22 August 2016 - 09 September 2016
Draft report issued:	21 September 2016
Final report issued:	29 September 2016

DISTRIBUTION LIST	
David Cameron	Director of Corporate Services
Audit Committee	

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EXECUTIVE SUMMARY

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

The primary focus of the LAG over the course of the year in relation to its role in LEADER has been:

- Contribution to national work in developing LEADER systems and processes;
- Development of internal governance procedures and administrative systems;
- Establishment of the LAG as an incorporated entity with clear, separate legal personality from its Accountable Body;
- Animation of project ideas within the Cairngorms National Park; and
- Development of LAG commissioned and partnership projects, notably “Building Stronger Communities” and “Cairngorms Community Broadband” projects.

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This is an uncertain time for the future of EU led programmes. Initial discussions with the Scottish Government indicated that funding in relation to the LEADER programme prior to the Autumn Statement in November 2016 will be granted by the Scottish Government. Uncertainties remain, however, in relation to funding granted after this point, particularly prior to the announcement of the Scottish Government expected in March 2017.

As part of the 2016 - 2017 Internal Audit plan, it was agreed that Internal Audit would assess the processes in place to ensure compliance with the requirements of the service level agreement and effectively administer the LEADER programme.

The SLA defines the responsibilities and obligations, duties and accountabilities of both the Scottish Government and Cairngorms National Park Authority (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.

The Cairngorms Local Development Strategy 2014-2020 aims to support a sustainable rural economy by outlining investment priorities for community-led local development in the Cairngorms National Park. The delivery of the strategy is supported by six priority themes and fifteen outcomes, which provide a strategic vision to guide implementation of the strategy. For example, the theme of improving the provision of transport, connectivity and service is supported by three outcomes, including communities having equality of access to next generation 24 megabyte plus broadband by 2020.

The strategy is delivered through the LEADER Business Plan 2014-2020, which details a number of processes and procedures implemented in relation to the LEADER programme. Decision-making procedures, monitoring and evaluation plans and financial arrangements are outlined in the plan, in addition to key stakeholder and communication activities.

EXECUTIVE SUMMARY

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A Memorandum of Agreement between Cairngorms National Park Authority (CNPA) and the Cairngorms Local Action Group (CLAG) was signed in December 2014. The document outlines the respective roles and responsibilities of CNPA and the CLAG in the development, delivery and management of a LEADER funded programme. For example, 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 is the responsibility of the CLAG. The development of appropriate arrangements to encourage and support community led local development in line with the LDS is also included within the additional responsibilities of the CLAG. The receipt and effective stewardship of all LEADER resources made available by the Scottish Government and the employment of any staff required by the CLAG and Cairngorms Local Action Trust (CLAT) , for example, are included within the responsibilities of CNPA defined in the Memorandum.

The CLAT was established in 2015 and registered as a Scottish Charitable Incorporated Organisation in May 2016. The Trust was formed to take on the legal identity of all Cairngorms LEADER operations and is responsible for monitoring the income and expenditure position of the Cairngorms LEADER programme and setting operational budgets for the CLAG to operate within. Additional responsibilities of the CLAT defined in the Memorandum include the resolution of any disputes arising from CLAG funding decisions as the final point of appeal on any LEADER funding decisions, for example.

Monitoring and evaluation arrangements within the LEADER programme are defined within the Monitoring and Evaluation Strategy. The strategy categorises responsibilities between key groups, including the Scottish Government, CLAG, LEADER staff and CNPA. For example, a quarterly monitoring meeting is held by the CLAG to maintain an oversight of performance against targets and to identify corrective actions required. The monitoring arrangements are also supported by an annual review by the CLAG where any significant changes to the programme are identified, in addition to setting the programme targets for the following year. The annual review is attended by the CLAG, LEADER staff and invited external stakeholders. A Monitoring and Evaluation Activity Timetable is provided in the strategy, and is included at Appendix IV of this report.

The Scottish Government's LAG Administration Guidance outlines administrative procedures and requirements that must be implemented for the animation and administration of the LEADER programme. The document provides guidance on staff recruitment and office processes; key operations such as evidencing expenditure and running costs; storing key information; and publicising the CLAG, including press releases. The Scottish Government's Administration Claims Guidance provides further guidance for the CLAG on evidencing expenditure, breaches and penalties, separation of duties, and requests and returns, in addition to listing key LEADER Finance team contacts.

EXECUTIVE SUMMARY

OVERVIEW

Process diagrams illustrate the LEADER programme processes from the applicant initially enquiring about funding through to the CLAG making a funding decision and monitoring and reviewing the programme progress. The diagram which illustrates an overview of the process has been included at Appendix V of this report. More detailed process diagrams have been provided to LEADER staff for each key stage of the application and funding process. The Expression of Interest process diagram, for example, categorises responsibilities between a number of stakeholders, including the Administrator and the Supervisor, and outlines the process to be followed from the Applicant raising an expression of interest through to the Development Officer emailing the Applicant with feedback.

A Scoring Sub-Group has been established to review project applications against a defined scoring matrix in advance of CLAG meetings. 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 scoring matrix has been included at Appendix VI 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 approach for a number of communication methods, such as workshops, newsletters and press announcements, is outlined in the Cairngorms Local Development Strategy Communications Plan. A detailed timetable is provided in the plan which schedules a number of communication activities with key stakeholders throughout the year, including team meetings for example.

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 and whether the roles and responsibilities of LAG, Accountable Body and staff have been clearly defined. We assessed whether there are effective governance and management processes in place to ensure sufficient oversight of the programme and whether administration processes implemented by the LEADER team, including surrounding records management and information sharing, are well designed and comply with the SLA. We assessed whether processes for consideration of project and funding applications; handling of enquiries; consideration of expressions of interest; initial project application development and scoring and decision making, have been clearly defined and are transparent and fair. We also assessed whether grant claim processes have been effectively designed to ensure information and evidence is compiled effectively; records are managed effectively; separation of duties is in place; grant claim regulations are complied with and there is effective communication between the Accountable Body and Scottish Government team.

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

Good Practice

We are pleased to report that efficient, effective and well controlled processes have been developed to ensure compliance with the SLA. Roles and responsibilities of CLAG, Accountable Body and staff have been clearly defined within the Memorandum of Agreement and the Business Plan. Effective governance and management processes are in place to ensure sufficient oversight of the programme, including quarterly CLAG meetings, and well designed administration processes have been implemented by the LEADER team which comply with the SLA. The project application process has been clearly defined in process diagrams and is transparent and fair. We selected a sample of three project applications and confirmed that the process was operating as defined in accordance with the process diagrams.

Conclusion

We are able to provide substantial assurance over the design and operational effectiveness of the controls in place relating to LEADER Administration.

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.
- ✔ The roles and responsibilities of LAG, Accountable Body and staff may not have been clearly defined.
- ✔ There may not be effective governance and management processes in place to ensure effective oversight of the programme.
- ✔ Administration processes implemented by the LEADER team, including surrounding records management and information sharing may not be effective.
- ✔ Processes for consideration of project and funding applications; handling of enquiries; consideration of expressions of interest; initial project application development and scoring and decision making may not have been clearly defined and may not be transparent and fair.
- ✔ Grant claim processes may not have been effectively designed to ensure information and evidence is compiled effectively; records are managed effectively; separation of duties is in place; there is effective communication between Accountable Body and Scottish Government team and, grant claim regulations are complied with.

OBSERVATIONS

1. LARCS IT System

Section 7.4 of the Service Level Agreement notes that all records, documents or electronic data relating to any projects considered must be stored on the LARC IT system. We recognise that the Scottish Government's LARC IT system is not yet fully operational and this obligation cannot be fulfilled by CNPA as a result.

2. Grant claim processes

We found that there were no grant claim processes in place in relation to the LEADER programme at the time of our review. We recognise that the Scottish Government is responsible for documenting effectively designed grant claim processes and these have not yet been developed.

3. Compliance with the SLA

We found that compliance with the SLA does not feature as a standing agenda item at quarterly CLAG meetings. However, we note that an instance of Scottish Government non-compliance with the SLA was highlighted at the May 2016 and can therefore gain assurance that this is being monitored effectively.

4. Communication with the Scottish Government





Quarterly co-ordinator meetings provide an opportunity for LAGs to raise any issues relating to the LEADER programme with the Scottish Government. However, management highlighted that an additional regular communication forum between the CLAG and the Scottish Government would be beneficial.




APPENDIX I - STAFF INTERVIEWED

NAME	JOB TITLE
Alice Mayne	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.

PURPOSE OF REVIEW

The purpose of this review is to provide management and the Audit Committee with a level of assurance that Cairngorms NPA has put in place effective processes to ensure compliance the requirements of the service level agreement, and effectively administer the LEADER programme.

KEY RISKS

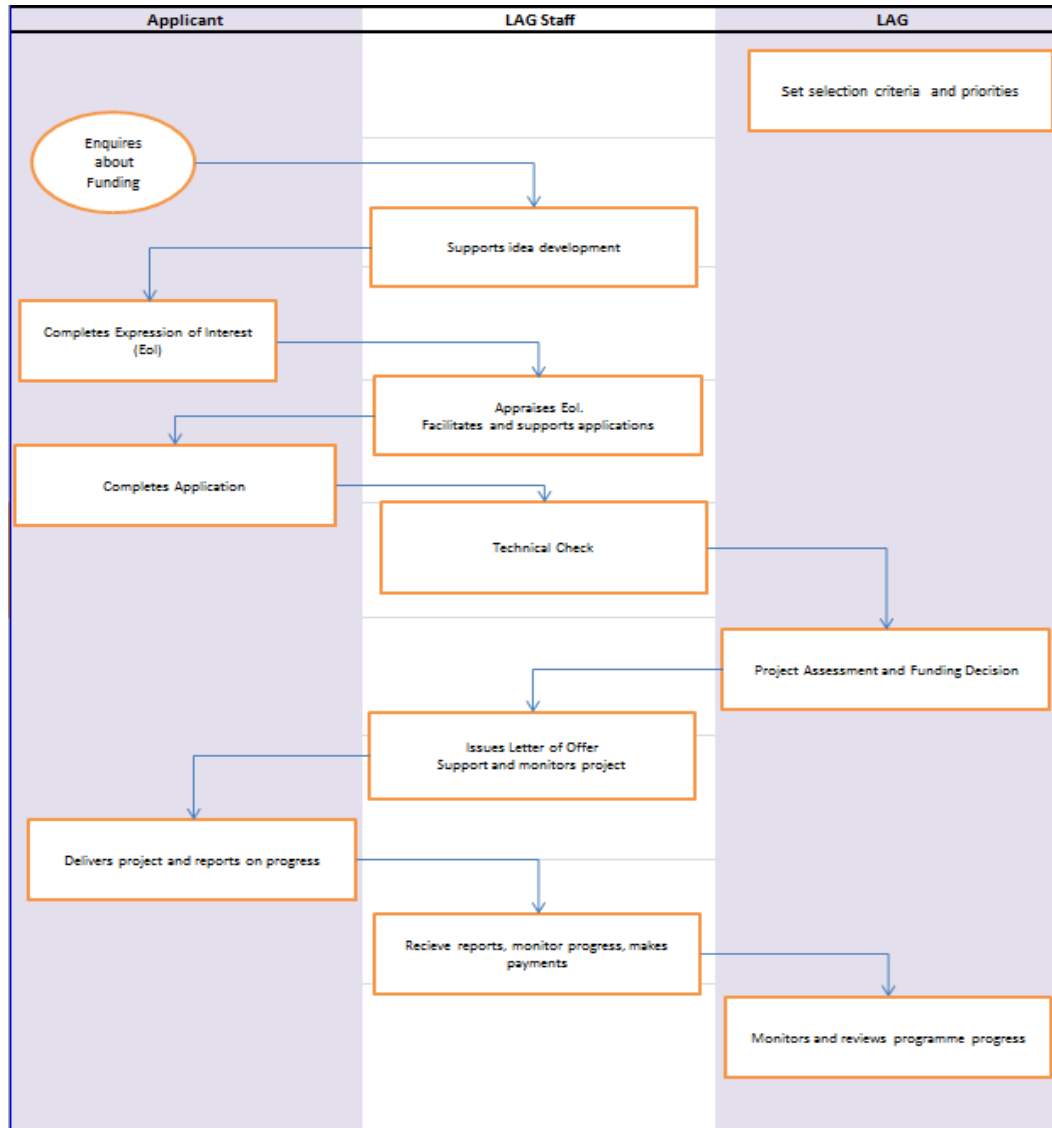
Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

- Efficient, effective and well controlled processes may not have been developed to ensure compliance with the service level agreement;
- The roles and responsibilities of LAG, Accountable Body and staff may not have been clearly defined;
- There may not be effective governance and management processes in place to ensure effective oversight of the programme;
- Administration processes implemented by the LEADER team, including surrounding records management and information sharing may not be effective;
- Processes for consideration of project and funding applications; handling of enquiries; consideration of expressions of interest; initial project application development and scoring and decision making may not have been clearly defined and may not be transparent and fair;
- Grant claim processes may not have been effectively designed to ensure information and evidence is compiled effectively; records are managed effectively; separation of duties is in place; there is effective communication between Accountable Body and Scottish Government team and, grant claim regulations are complied with.

APPENDIX IV - MONITORING AND EVALUATION ACTIVITY TIMETABLE

Level	Activity	Sub task	Lead	2014				2015				2016				2017				2018				2019				2020			
				Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4
LAG	Staff Perf Manag	Year End	CNPA policy																												
		Interim	CNPA policy																												
	1/4ly monitoring		CLAG Chair																												
	Annual Review		CLAG Chair																												
	Interim Evaluation	TOR	CLAG Chair																												
		Procure	LEADER Mg																												
		Delivery	Consultant																												
	Final Evaluation	TOR	CLAG Chair																												
		Procure	LEADER Mg																												
Delivery		Consultant																													
CLAG staff	Team meeting		LEADER Mg																												
	Admin Checks		Prog Sup																												
	Event reports		Prog Sup																												
	Budget Monit.		Prog Sup																												
	Annual review rpt		LEADER Mg																												
	Project visits		Prog Sup																												
	Post Proj Survey		Prog Sup																												
CNPA	Audit	ToR																													
		Conduct																													
		Annual Conf Cert																													
	SG	Claims	Finance Mg																												

APPENDIX V - LEADER PROCESS OVERVIEW




APPENDIX VI - 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	Weightin	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	Weightin	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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