



Cairngorms National Park Authority
Review of LEADER Project
Internal Audit 2008/09
June 2009
Strictly Private and Confidential

This report and the work connected therewith are subject to the Terms and Conditions of the engagement letter between Cairngorms National Park Authority and Deloitte LLP. The report is produced solely for the use of Cairngorms National Park Authority. Its contents should not be quoted or referred to in whole or in part without our prior written consent except as required by law. Deloitte LLP will accept no responsibility to any third party, as the report has not been prepared, and is not intended for any other purpose.

Project Sponsor	David Cameron
Key Client Contacts	Andrew Harper & Patricia Methven

Contents		Page
Section 1	Executive summary	1
Section 2	Detailed findings and recommendations	4
Section 3	Statement of responsibility	9
 Appendices		
Appendix A	LEADER Process Maps	10
Appendix B	Scope and objectives	11

Section 1 - Executive summary

1.1 Introduction

This internal audit of the LEADER project is an additional review requested by the Head of Corporate Services, as EC regulations require an annual internal audit of the project process. The scope of this report was agreed with the Head of Corporate Services prior to the commencement of work.

1.2 Background

LEADER is a French acronym, 'Liaison Entre Actions de Développement de l'Économie Rurale', meaning 'Links between the rural economy and development actions'.

The aim of LEADER is to enhance rural communities through helping those active in rural areas to consider the long-term potential of their area it also aims to encourage the implementation of integrated, high quality, original strategies for sustainable local rural development.

LEADER is designed as a bottom-up method of delivering support for rural development and is aimed primarily at small-scale, community driven projects. It seeks to support the implementation of local rural development strategies developed by Local Action Groups (LAGs); these comprise public, private and voluntary sector partners.

The LEADER contribution to a project should be the minimum amount required to allow the project to proceed. LEADER funding requires matched funding to be in place prior to the commencement of the project.

Cairngorms National Park Authority (CNPA) has received LEADER project funding for a number of years. The introduction of Regulation (EC) 885/2006 requires that a LEADER related audit is undertaken on an annual basis.

This regulation requires an assessment of compliance with the Service Level Agreement (SLA) between CNPA and the Scottish Rural Payments & Inspection Directorate (SGRPID), as the Paying Agency in Scotland and relevant EC regulations.

LEADER funds of £2,170,000 are available to CNPA as part of the Scottish Rural Development Programme 2007-13. To date, LEADER & Convergence funding of £755,000 has been committed to projects. The Highland Council has also transferred £72,000 of LEADER funding that CNPA is responsible for distributing; £43,562 of this total has been committed to a community project this year. Projects are initially considered by the Project Appraisal and Advisory Group (PAAG), who can approve grants of up to £5k. For larger grant awards the PAAG makes funding recommendations to the Local Action Group.

A flowchart documenting the CNPA funding processes is documented at **Appendix A**.

Section 1 - Executive summary (continued)

1.3 Approach

Our approach was to document the systems and procedures in operation through discussions with relevant staff and the review of appropriate documentation. The key controls were then tested to determine their adequacy and effectiveness. Our review of project finances was restricted, as at the time of testing CNPA had not claimed any LEADER funding from the SGRPID.

1.4 Conclusion

Audit areas	Overall Assessment	Report Ref.
LEADER principles form the basis of related projects	***	2.1
Management of the LEADER SLA is effectively discharged	**	2.1, 2.2, 2.4, 2.5
LEADER performance is reported on a regular basis	****	
All funding is appropriately discharged to applicants with appropriate supporting documentation	****	
Appropriate monitoring arrangements are in place over LEADER projects	***	2.4, 2.5
Relevant EC regulations are met within the requirements of the SLA	***	2.3

Key:

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

Section 1 - Executive summary (continued)

1.4 Conclusion (continued)

We can conclude that the controls in place in respect of the audit areas offer scope for improvement, particularly in the areas of project assessment regarding environmental sustainability and the centralised retention of SLA documentation. We have summarised the weaknesses and issues below and further details of our findings and recommendations can be found within **Section 2** of this report.

Our key findings are as follows: -

- Projects are not robustly assessed for environmental sustainability (*Recommendation 2.1*);
- There is no formal record of documentation relating to the SLA and no standard procedure for archiving (*Recommendation 2.2*); and
- CNPA is not compliant with the information systems security standards stated in the SLA (*Recommendation 2.3*).

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

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

1.5 Acknowledgements

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

Section 2 - Detailed findings and recommendations

2.1 Assessment of project environmental sustainability

Finding	Recommendation	Rationale	
<p>During our testing we examined the Cairngorms LAG approval of project 037: The Braemar Castle Renovation. This is a major renovation involving extensive repairs to exterior masonry and turrets. The LEADER funding approved by the LAG was £50,000, from a total required funding package of £486,826.</p> <p>The application contains details of how the restoration will aid sustainable development. This includes specific comment on the project's contribution to economic growth, social cohesion and the protection of the environment.</p> <p>There is no statement of how the project will aid environmental sustainability. It was noted that Braemar Community Limited's business plan included an environmental policy which states "any physical development undertaken by the company will be subjected to an Environmental Impact Assessment (EIA)"</p> <p>The LEADER document Guidance for Local Action Group Coordinators and Administration Staff states that one of the principles which LAG's are required to observe is environmental sustainability.</p>	<p>The project application form should be updated to include a section detailing how the project is environmentally sustainable.</p> <p>Where projects involve an EIA, CNPA should document the review before approving the project.</p>	<p>The current application form does not detail how projects observe the principle of environmental sustainability.</p> <p>There is a risk that projects which are not clearly evidenced as being environmentally sustainable are approve and receive LEADER funding, which contravenes the principles behind the project.</p>	
Management Response	Responsibility/ Deadline		Priority
<p>The application form is a standard document issued by the Scottish Government. However, we have now modified it to include a section on environmental sustainability. There is no need for the LAG to review EIA's for individual projects. Projects involving physical works will always be conditional upon appropriate consents being obtained – including planning permission and listed building consent. Any EIA will be considered in granting such consents.</p>	<p>Patricia Methven Actioned</p>		<p>Two</p>

Section 2 - Detailed findings and recommendations (continued)

2.2 Maintenance of records

Finding	Recommendation	Rationale	
<p>The SLA states that ‘all records, documents or electronic data off all activities undertaken by the Park Authority relating to the activities delegated to them under the SLA will be maintained by the Park Authority for a minimum of 7 years from the end of the financial year to which they apply or one year after the final case is cleared, whichever is the later.’</p> <p>There is no document log in place to record the location of SLA documentation.</p> <p>The LEADER SLA also requires archiving to be undertaken in a structured manner. There is currently no procedure in place to guide staff in terms of archiving.</p>	<p>A log of all records relevant to the SLA should be prepared and maintained by a nominated individual.</p> <p>CNPA should ensure that there is a documented archiving policy in place to ensure records are adequately maintained.</p>	<p>The implementation of the recommendation is required to ensure compliance with the requirements of the SLA to ensure appropriate document retention measures are in place.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>All of the records relating to the SLA are maintained in central areas within both Cairngorms LAG paper and electronic filing systems. We keep all records for the proscribed time periods.</p> <p>All archived records are held in boxes their contents listed. We are currently progressing an off-site archiving facility.</p>		<p>No further action required on records log.</p> <p>Andy Rinning</p> <p>August 2009</p>	<p>Two</p>

Section 2 - Detailed findings and recommendations (continued)

2.3 Compliance with information systems security standards

Finding	Recommendation	Rationale	
<p>The SLA states that ‘All electronic activities should be carried out in accordance with ISO security compliance as prescribed in annex 1 section 3 (b) of regulation (EC) 885/2006.</p> <p>Annex 1 section 3(b) of regulation (EC) 885/2006 states that:</p> <p>“information systems security should be based on one of the following internationally accepted standards (ISO 17799/British Standard 17799, IT Baseline Protection Manual or COBIT)”.</p> <p>Discussions with the Information Systems Manager identified that CNPA’s information systems security is not based on any of standards listed in the SLA.</p>	<p>A review should be undertaken of the CNPA information systems security arrangements. This review should seek to identify the areas on non-compliance with on the named standards.</p> <p>This should be completed with reference to the existing strategic IT agreement in place with Scottish National Heritage.</p>	<p>CNPA must adhere to all relevant EU regulations as part of the terms of the SLA with the SGRPID.</p> <p>Compliance with these standards will aid CNPA in demonstrating its commitment to safeguarding the electronic information it holds.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>We will progress this recommendation and look at IT security as part of our transfer of IT services into SNH networks.</p>		<p>Sandy Allan</p> <p>Nov 2009</p>	<p>Two</p>

Section 2 - Detailed findings and recommendations (continued)

2.4 Reconciliation of LEADER claims to SAGE financial system

Finding	Recommendation	Rationale	
<p>Currently, the LAG Programme Support Manager reconciles the claim forms to the accounting information held in the SAGE financial system. This is done to assess the claims for accuracy, prior to submitting them to the SGRPID.</p> <p>The process is not formally documented and there is no evidence of a review of the reconciliation.</p>	<p>A reconciliation should be formally completed on a monthly basis and reviewed by an appropriate member of staff.</p>	<p>There is a risk that inaccurate claims are submitted to the SGRPID.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>We will build a review of reconciliations into the financial support processes that are currently being refined and agreed between the LEADER and Finance teams.</p>		<p>Patricia Methven and Alistair Highet</p> <p>August 2009</p>	<p>Three</p>

Section 2 - Detailed findings and recommendations (continued)

2.5 Park Authority Instructions and Checklists

Finding	Recommendation	Rationale	
<p>Annex A of the SLA between CNPA and the SGRPID states:</p> <p>"As delegated agent, the Park Authority will:</p> <p>(b) Provide SGRPID with drafts for approval of all relevant Park Authority instructions and checklists in relation to this SLA and all amendments when required; supply SGRPID with copies of final issued versions;"</p> <p>Discussions revealed staff were unaware what Park Authority instructions or checklists the SLA referred to.</p>	<p>CNPA should ensure they are compliant with this requirement of the SLA and should seek clarification of the required documents from the SGRPID.</p>	<p>Non-compliance with the SLA could lead to the withdrawal of the present funding arrangements.</p>	
Management Response		Responsibility/ Deadline	Priority
<p>We will write to SGRPID to clarify their expectations in relation to this part of the SLA.</p>		<p>Andrew Harper and Patricia Methven</p> <p>September 2009</p>	<p>Three</p>

Section 3 - Statement of responsibility

Statement of Responsibility

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

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

Deloitte LLP

Inverness

June 2009

In this document references to Deloitte are references to Deloitte LLP.

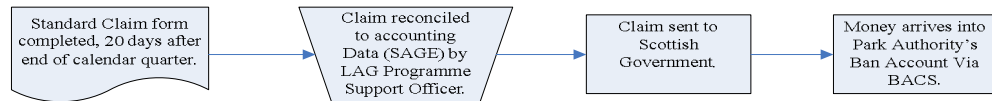
Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ('DTT'), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other's acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.

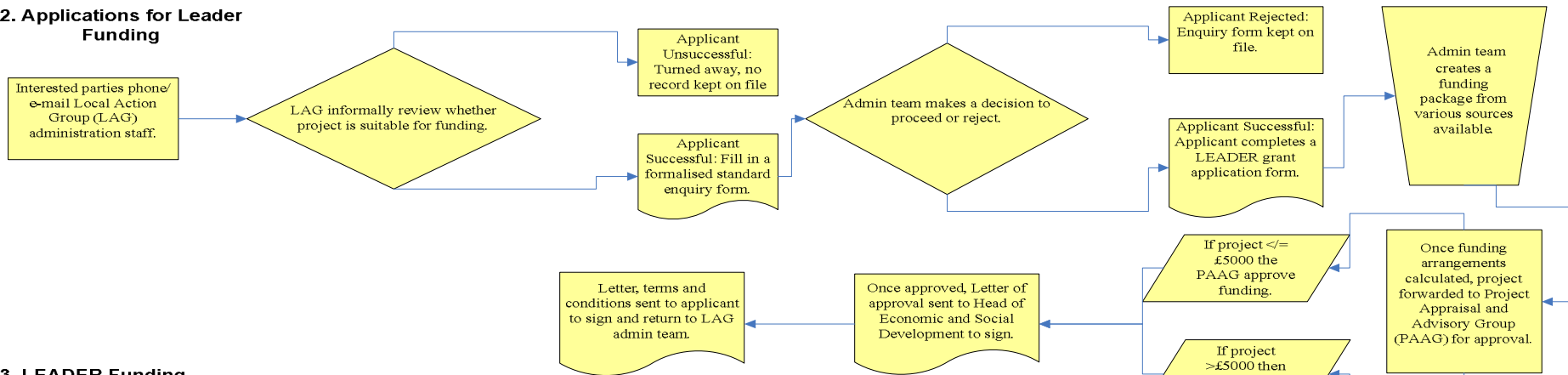
©2009 Deloitte LLP. All rights reserved.

Appendix A - LEADER Process Maps

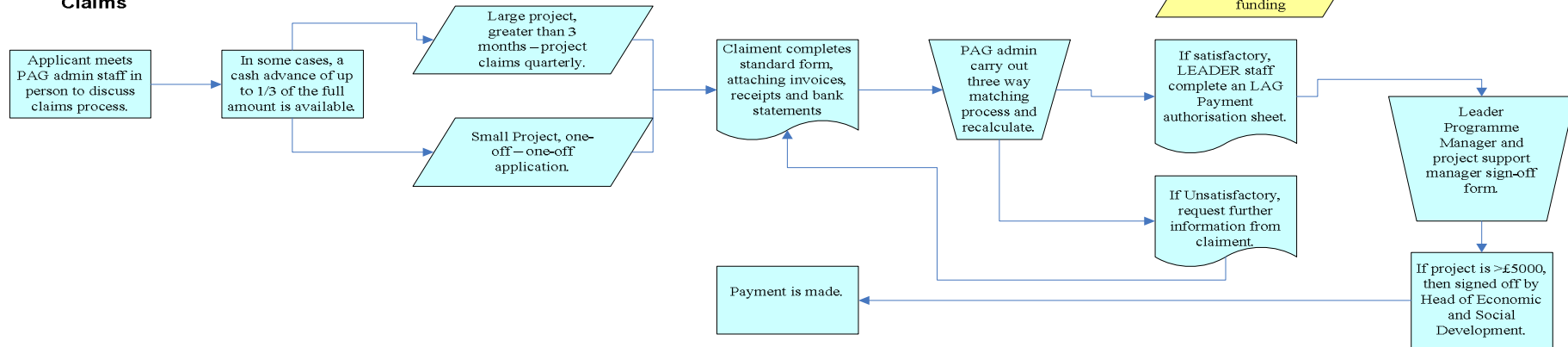
1. CNPA Claims from Scottish Government



2. Applications for Leader Funding



3. LEADER Funding Claims



Appendix B - Scope & objectives

Background

LEADER is a French acronym, 'Liaison Entre Actions de Développement de l'Économie Rurale', meaning 'Links between the rural economy and development actions'.

The aim of LEADER is to enhance rural communities through helping those active in rural areas to consider the long term potential of their area and encourage the implementation of integrated, high quality, original strategies for sustainable local rural development.

CNPA has received LEADER project funding for a number of years. The introduction of Regulation (EC) 885/2006 requires that LEADER related audit work now requires to be undertaken on an annual basis.

This regulation required an assessment of compliance with the Service Level Agreement (SLA) between CNPA and the Scottish Government Rural Payments & Inspection Directorate (SGRPID), as the Paying Agency in Scotland and the relevant EC regulations.

Objectives

The overall objective of this audit is to assess the controls in place over the following areas:

- LEADER principles form the basis of related projects;
- Management of the LEADER SLA is effectively discharged;
- LEADER performance is reported on a regular basis;
- All funding is appropriately discharged to applicants with appropriate supporting documentation;
- Appropriate monitoring arrangements are in place over LEADER projects;
- Relevant EC regulations are met within the requirements of the SLA.