Cairngorms National Park Authority

INTERNAL AUDIT REPORT - FINAL

LEADER Review

October 2018

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Moderate

BDO

CONTENTS

REPORT STATUS	
Auditors:	Gemma Rickman
Dates work performed:	17 July – 14 September 2018
Draft report issued:	28 September 2018
Final report issued:	**18 October 2018**

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	🟦	Evidence of non compliance with some controls, that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)	
High ▲	
Medium ◻	1
Low 🟢	
Total number of recommendations: 1	

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 2018-19 Internal Audit plan, it was agreed that Internal Audit would assess the processes in place to ensure compliance with the requirements of the SLA. The purpose of our 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 SLA.

EXECUTIVE SUMMARY

The SLA defines the responsibilities and obligations, duties and accountabilities of both 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. However, Scottish Government has issued guidance to Accountable Bodies explaining that drawdowns may be submitted more frequently than quarterly, although there must be at least one drawdown per quarter as per the SLA. CNPA currently submits monthly drawdown claims to Scottish Government.

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, cash flow forecasts and permissions where applicable, is recorded on the checklist, which is required to be approved by the Programme Manager or Chair/Vice 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.

A project assessment scoring sheet is completed for each application 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.

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 our review was to assess whether:

- Efficient, effective and well controlled processes have been developed to ensure compliance with the service level agreement;
- Project and funding applications are considered and scored in accordance with a clearly defined process;
- Applications are approved appropriately and on a timely basis;
- Claims submitted to Scottish Government by CNPA are in line with eligibility criteria;
- Claims submitted to CNPA by applicants are reviewed and approved appropriately prior to payment;
- Grant claim regulations are being complied with; and
- 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.

EXECUTIVE SUMMARY

OVERVIEW

Key Findings

Notwithstanding the elements of good practice noted above, we have identified an area where further improvements could be made, as follows:

Application assessment and approval - Our sample testing identified one technical checklist out of a sample of five tested which had not been signed as completed by the assessor and approved by the Programme Manager or Chair / Vice Chair of the Accountable Body. We note that this has been corrected since the timing our of fieldwork.

Conclusion

We are able to provide substantial assurance over the design and moderate assurance over the operational effectiveness of the controls in place to ensure compliance with the requirements of the SLA. We recommend management implement the noted control improvements to further develop the current arrangements, and ensure they operate consistently across the organisation.

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.
☑   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.

EXECUTIVE SUMMARY

AREAS FOR IMPROVEMENT			
Ref.	**Sig.**	**Finding Summary**	**Recommendation**
1	🟧	Our sample testing identified one technical checklist out of a sample of five tested which had not been signed as completed by the assessor and approved by the Programme Manager or Chair / Vice Chair of the Accountable Body. We note that this has been corrected since the timing our of fieldwork.	We recommend that the Accountable Body implements measures to ensure that applications are appropriately assessed prior to CLAG approval being sought.
All our findings and recommendations are set out in the following pages and include those of low significance which have not been summarised above.			

DETAILED FINDINGS AND RECOMMENDATIONS

RISK: Project and funding applications may not be considered and scored in accordance with a clearly defined process.			
Ref.	**Finding**	**Sig.**	**Recommendation**
1	It is important that LEADER applications can be evidenced as being appropriately assessed and approved. Our sample testing identified one technical checklist out of a sample of five tested which had not been signed as completed by the assessor and approved by the Programme Manager or Chair / Vice Chair of the Accountable Body. We note that this has been corrected since the timing our of fieldwork. There is a risk that applications are not assessed appropriately prior to CLAG approval.	🟧	We recommend that the Accountable Body implements measures to ensure that applications are appropriately assessed prior to CLAG approval being sought.

MANAGEMENT RESPONSE	RESPONSIBILITY AND IMPLEMENTATION DATE
Recommendation agreed and acted upon. In May 2018 the Cairngorms LEADER team became aware, via our own internal and some Scottish Government checks, that some files were missing the signed copy of the Technical Checklist. Moreover it was clear that the 'internal' check section of the form and the final Technical Appendix C were being viewed together and leading to confusion at audit or check. With this in mind the two parts of the checklist were separated and process for new applications starts with the internal 'Pre-LAG Internal Checklist' for staff to use during technical checking. Prior to the LAG meeting the 'Final Technical Assessment' is completed by the LEADER Manager and AB Representative, signed and uploaded to LARCS. The LEADER team are in process of back-checking all files to ensure completeness.	*Responsible Officer: Bridget Trussell, LEADER Manager* *Implementation Date: 16/10/18*

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.

OBSERVATIONS (continued)

2. Gifts and Hospitality

The SLA between the Scottish Ministers and the Accountable Body states that no official or employee of the Scottish Ministers or the Accountable Body acting on the Scottish Ministers' behalf may accept or offer gifts, hospitality or benefits to or from a third party which might be seen to compromise the individual's personal judgement or integrity in carrying out their function under the SLA. The SLA states that in cases of doubt, officers and employees should accord with the Accountable Body's policy on Gifts and Hospitality.

CNPA's policy on gifts and hospitality states that gifts of a small or inexpensive nature (e.g. calendars or diaries or other inexpensive gifts such as flowers and chocolates) up to an approximate value of £10 can be accepted, and that all other gifts must be registered and a decision on return or disposal will be taken by the Finance Manager.

Management advised that a tie was received as a gift by a member of the Accountable Body which has not been recorded on the CNPA's register of gifts. Although the item may be inexpensive, there is an opportunity for the Accountable Body to enhance its current arrangements by recording all gifts received on the Authority's gifts register.

APPENDIX I – STAFF INTERVIEWED

NAME	JOB TITLE
David Cameron	Director of Corporate Services
Bridget Trussell	LEADER Manager
Daniel Ralph	Finance Manager
Lynn Anderson	Support Officer

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.

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.

KEY RISKS

Based upon the risk assessment undertaken, 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.

www.bdo.co.uk