

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	VERIFICATION AUDIT
AUDIT TITLE	REVIEW OF LEADER - ANNUAL CERTIFICATION
AUDIT DATE	AUGUST 2015

2015/2016



1. BACKGROUND

This report has been prepared as the result of an Internal Audit review of LEADER funding as part of the 2015/16 Internal Audit Programme.

LEADER, (Liaisons Entre Actions de Development Economique Rurale) funding is part of the Scottish Rural Development Programme (SRDP) and is delivered by Local Action Groups (LAGs) approved by the Scottish Government. The Council acts as Lead Partner to the Argyll and Islands LEADER Local Action Group (LAG), in accordance with a Service Level Agreement (SLA) with Scottish Government Rural Payments and Inspection Directorate (SGRIPD).

LEADER Funding for 2007 – 2013 consisted of an amount of £3.77m LEADER funds with additional Convergence funding of £5.12m. LAG members have responsibility for delivering the Local Development Strategy and making ongoing strategic decisions on the running of the LEADER programme within Argyll and the Islands. The LAG also has responsibility for awarding funding to successful applicants. The Council, as Lead Partner is responsible for employing staff, providing secretariat support and managing budgets. As Lead Partner the Council must ensure that an Annual Confirmation Certificate covering the year 16 October 2014 to 15 October 2015 is provided.

Internal Audit is required to undertake a review and provide an Annual Report as part of the supporting evidence in preparation of this certificate. This work is intended to verify that procedures adopted by the Council are adequate to ensure compliance with the SLA and European Community regulations.

The LEADER programme for 2015 – 2020 is under development. The new SLA between the Council and SGRIPD is under development, a number of changes from the previous version are under discussion. The Economic Development Management has requested input from Legal services in the discussions to ensure that good governance is in place prior to the start of the programme.

There have been a number of delays due to the Scottish Governments guidance requiring clarification as the team have concerns around the monitoring and evaluation process and how the guidance will work in practice. There is also a national online system for applications and grant claims (LARCS) under development which the Council's team have been actively involved in the development of and have been assisting in the testing phase; however this process has been delayed due to other Scottish Government priorities taking precedent.

2. AUDIT SCOPE AND OBJECTIVES

The scope and objectives are to review:

- Compliance with the SLA between Argyll and Bute Council and SGRIPD;
- Final claims for 2007 – 2013 LEADER funding - to ensure the claim process is robust and compliant with guidance.

3. RISKS CONSIDERED

As part of the audit process the risk register was reviewed to identify any risks that potentially impact on the audit. The following risks were identified, but have been addressed and managed by the Council.

- Failure to comply with new legislation, regulations or statutory responsibilities; and
- Failure to have a robust internal control process and system which could lead to substantial fines imposed by the European Union regarding errors in the claims process.

4. AUDIT OPINION

The level of assurance given for this report is High

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

<p>High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;</p> <p>Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;</p> <p>Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.</p>
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5. FINDINGS

The following findings were generated by the audit:

Compliance with Service Level Agreement (SLA)

- The team have not encountered any suspected breaches, frauds or irregularities. A procedure is in place whereby irregularities are reported to SGRIPD on detection.
- The review of files showed that governance arrangements are in place and it was noted that conflicts of interest at Local Action Group (LAG) meetings are recorded on minutes with the relevant members leaving the meeting when their interested project is being discussed and return thereafter.
- An annual report containing the activity for the year is submitted to SGRIPD in line with requirements.
- An annual Confirmation Certificate is provided by Internal Audit following satisfactory review of files and working practices, this is submitted to SGRIPD with the annual report prepared by the LEADER Project Co-ordinators.
- The team is aware of the Council's policy on gifts and hospitality, although there were no recorded instances.
- Monthly reports are sent to SGRIPD these include details of applications and claims made, results of spot checks and admin checks, financial and statistical information and any other matters arising.
- It was evidenced that reconciliations of claims made and reclaimed from SGRIPD are completed on a monthly basis and quarterly returns are submitted to SGRIPD providing details of financial and statistical data.
- Quarterly composite claims are made to SGRIPD.
- The review of files showed that overpayments or irregularities due to payments made on a percentage basis were rectified during the final claim stage.
- All records are kept and stored within the guidelines for retention of paperwork.
- The SLA is reviewed on an annual basis and updated when appropriate.
- Argyll and Bute Council do not sub-contract any of the Lead Partner duties.
- Performance targets set out within the SLA are monitored and recorded on the Pyramid system.

Claims Process

Two project files were selected for review based on the financial value of claims processed in 2015. These were Argyll Coastal Waters and The Holy Isle Gateway Project. The files reviewed contained evidence that:-

- All claim forms were completed in accordance with LEADER procedures, including submission to and approval by the LAG.
- All application and claim details were entered onto the LEADER database.
- Supporting documentation such as invoices and timesheets were held on file relating to expenditure for the period claimed and evidence of defrayment from bank accounts was present.
- All claims were checked by the team to ensure expenditure was appropriate. This was evidenced by rejection of non-compliant elements within claims such as an item which was commissioned prior to the letter of confirmation allowing the project to commence spending which shows due diligence and care is being taken when reviewing claims.
- All claim forms were appropriately authorised for payment.

Final Claims

- All final claims were reviewed for accuracy and completeness by the European Support Officer.
- Final claims were supported by all relevant documentation, including, invoices, bank statements and previous payment information.
- SGRIPD were informed that the final payment had been made.
- The Project activity closure form had been completed and retained on file.

6. CONCLUSION

This audit has provided a High level of assurance. There are no recommendations for improvement identified as part of the audit

Thanks are due to the Economic Development staff and management for their co-operation and assistance during the Audit and the preparation of the report.



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