

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	VERIFICATION AUDIT
AUDIT TITLE	REVIEW OF FLAG
AUDIT DATE	AUGUST 2015

2015/2016



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Fisheries Local Action Group (FLAG) within Development and Infrastructure as part of the 2015/16 Internal Audit programme.

Argyll & Bute and South Ayrshire Fisheries Local Action Group (FLAG) is a partnership established to oversee the delivery of the European Fisheries Fund (Axis 4). The FLAG, which includes representatives from the public, community and private sectors, has allocated a sum of £400K to projects that seek to promote the sustainable development of communities that have been affected by the decline of the fishing industry. Public, private and third sector organisations operating in fishing communities throughout Argyll & Bute and South Ayrshire are eligible to apply for funding.

FLAG members will oversee the delivery of the European Fisheries Fund (EFF) and will have responsibility for considering funding applications. Applications will be assessed against EFF eligibility criteria, the project's contribution towards the Local Fisheries Development Strategy and the level of community benefit that will be delivered.

Argyll & Bute and South Ayrshire (ABSA) Fisheries Local Action Group will support measures to promote economic diversification and an improved quality of life in areas affected by a decline in fishing activities with a particular focus on the following Axis 4 priorities:

- Revitalising Communities;
- Coastal Community Capacity;
- New Markets and Products; and
- Progressive Coastal Economy.

Internal Audit is required to undertake a review and provide an annual report as part of the supporting evidence in preparation of the Annual Confirmation certificate as outlined in Section 11 of the Service Level Agreement (SLA) with Marine Scotland, a Directorate of the Scottish Government. A total of 7 projects have been passed as eligible under the European Fisheries Fund Axis 4 eligible criteria by the Fisheries Local Action Group.

2. AUDIT SCOPE AND OBJECTIVES

The scope and objectives are to review:

- Compliance with the SLA between Argyll and Bute Council and Marine Scotland;
- Claim process - to assess the robustness of claim process and compliance with guidance; and
- Final claims for 2007 – 2014 FLAG funding - to ensure the claim process is robust and compliant with guidance.

3. RISKS CONSIDERED

- Contract compliance checking is inadequate leading to inaccurate payments being made and financial loss.
- Failure to meet the requirements of the SLA between Argyll and Bute Council and Marine Scotland.

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:-

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;

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;

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.

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 FLAG meetings are recorded on minutes with the relevant members leaving the meeting when their interested project is being discussed and return thereafter.
- All records are kept and stored within the guidelines for retention of paperwork.
- An annual confirmation certificate is provided by Internal Audit following satisfactory review of files and working practices.
- The team are aware of the Council's policy on gifts and hospitality, although there were no recorded instances.

- It was evidenced that a reconciliation of expenditure funded by Marine Scotland is carried out.
- Marine Scotland carry out a 10% check on all FLAG project applications and claims submitted throughout Scotland. To date, there has been no selection made from ABSA FLAG projects.
- Marine Scotland has provided ABSA FLAG with document templates for letters, forms, checklists etc, these have been adapted slightly to incorporate local variations and have been approved by Marine Scotland for use.
- Supervisory controls are in place where the European Support Officer addresses all queries throughout the duration of the ABSA FLAG projects and performs a check on all final claims made.
- Quarterly returns are submitted to Marine Scotland providing details of financial and statistical data.
- Internal Audit has carried out an annual review of compliance as per the SLA requirements.
- Performance targets set out within the SLA are monitored and recorded.

Claims Process

- All claim forms were completed in accordance with Marine Scotland requirements, including one nil claim.
- All claim details were entered onto the ABSA FLAG database.
- Supporting documentation such as invoices and timesheets were held on file to evidence expenditure for the period claimed.
- Marine Scotland had been notified of all claims received, however, some emails were missing from the file to evidence this, the relevant emails were promptly printed from email archives and added to file while the auditor was on site.
- All claims were checked by team to ensure expenditure was appropriate, this was evidenced by ink stamp on filed documents.
- All claim forms were appropriately authorised for payment.

Final Claims

- All final claims are 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.
- Marine Scotland is informed that final payments have been made.
- Project activity closure form completed and retained on file.

6. CONCLUSION

This audit has provided a high level of assurance. There were 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 and action plan.



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