

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	VERIFICATION AUDIT
AUDIT TITLE	INTERNAL AUDIT REVIEW OF LEADER PROGRAMME
AUDIT DATE	JULY 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of LEADER within Development and Infrastructure Services as part of the 2016-17 Internal Audit programme.

The LEADER (an acronym in French meaning Links between actions for the development of the rural economy) programme is a European Union initiative to support rural development projects initiated at local level in order to revitalise rural areas and create jobs.

Funding is awarded by Local Action Groups (LAGs) who make decisions on projects which are community driven and have a wide community benefit. LAGs are a partnership made up of representatives from: the local Council, local enterprise company, business people, other public agencies, voluntary action groups and community groups.

A Service Level Agreement (SLA) between Scottish Government and Accountable Bodies (AB) for LEADER LAGs requires an annual internal audit of the functions and services undertaken by each AB in fulfilment of their role, including an internal audit assessment of the extent of observance by the AB of the requirements of the SLA.

The SLA was signed on 14 August 2015.

Primary Activities over Course of Year

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 AB;
- Animation of project ideas within Argyll and the Islands;
- Development of LAG commissioned and partnership projects.

To date, in respect of the new programme, there has been no activity in terms of formal approval of LEADER projects and therefore no grant awards, nor claims submitted to the LAG's staff team, nor flow of finance to applicants.

Argyll and Bute Council as the AB will submit claims to Scottish Government for the administration component of LEADER grants.

Historically, Argyll and Bute Council have had no issue with the submission of administration claims with all having been fully paid to date.

On 19 August 2016, a representative from Scottish Government Business Assurance team gave a presentation on the findings relating to the 2014/15 EU Conformity clearance audit to LEADER management and Internal Audit of Accountable Bodies. This presentation related to weaknesses identified by European Auditors regarding a combination of key and ancillary control failures relating to administrative checks not being carried out and failure to carry out the required monitoring and control checks within the LEADER program applications and payment process. The findings resulted in a financial penalty absorbed by the Scottish Government of 5% in relation to the preceding 24 months LEADER expenditure. This presentation and associated discussions have allowed ABs to undertake corrective action and apply best practice techniques prior to further audit and scrutiny.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to assess compliance with the requirements of the LEADER Programme SLA.

The internal audit for year 1 of the operation of the SLA has covered:

1. Review of terms of the SLA and arrangements in place to cover these terms
2. Review of governance and management arrangements
3. Review of LEADER administration processes, including records management and information sharing.
4. Review of processes for consideration of project and funding applications and expressions of interest, handling of enquires and scoring and decision making processes.
5. Review of LEADER administration grant claim processes, to include adequacy of:
 - a. information and evidence compilation,
 - b. records management systems,
 - c. segregation of duties,
 - d. compliance with grant claim regulations,
 - e. effectiveness of communications between AB and Scottish Government team.

3. RISKS CONSIDERED

SRR – Partnership Governance

Audit Risk – Non-compliance with SLA requirements

4. AUDIT OPINION

The level of assurance given for this report is Reasonable.

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. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources 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:

Review of terms of the SLA and arrangements in place to cover these terms

The SLA is prepared by the Scottish Government and passed to the AB (Argyll and Bute Council) for signature. The AB has no input to the compilation of the SLA, however, it was signed and returned with a covering letter from the Executive Director of Customer Services expressing some concerns over the lack of guidance from Scottish Government regarding the development of an appropriate Monitoring and Evaluation Framework, guidance on the application of State Aid Rules, disallowance bill/recovery of ineligible expenditure and new elements from the Rural Priorities Scheme.

There was no direct response to the concerns within the covering letter; however, aspects of the outstanding issues have been resolved through provision of further guidance as the LEADER programme governance has evolved.

It was evidenced that there are numerous guidance documents available for use within the LEADER team to support compliance with the requirements of the SLA, additionally; there is good communications in place between the LEADER team and Scottish Government allowing for transfer of further information and guidance as and when required.

Review of governance and management arrangements

In addition to the SLA, LAG guidance, Terms of Reference, Memorandum of Understanding and Conflict of interest matrix all outline clear governance and management roles and responsibilities to ensure that clear practices and processes exist.

Review of LEADER administration processes, including records management and information sharing

Good administrative processes have been implemented within the LEADER team. There is sound recording of financial information relating to administrative costs via payroll and purchase ledger reports. Reconciliations are undertaken monthly and quarterly. The last reconciliation completed was for the month of January 2016, however, all documentary evidence of expenditure up to within the last month is available in a lever arch file and can quickly be pulled together when required to complete claim. New claim forms are being designed by the Scottish Government and will be available for use in the near future; thereafter the first claim for administrative costs can be submitted.

Records will be managed on the new online grant management system "LARCS" on which staff are currently undergoing training. Information will be shared according to roles and responsibilities applied within the system, however, AB staff have identified that there is currently no role for the AB to offer grant or to carry out change requests. The absence of this role within the online system has been raised with the Scottish Government and the AB is awaiting response.

Procedures exist from a previous LEADER programme and staff have begun the process of updating these, however, further information, guidance and training in the new LARCS system is required from Scottish Government to allow this exercise to reach completion.

Review of processes for consideration of project and funding applications and expressions of interest, handling of enquires and scoring and decision making processes.

A comprehensive LAG Project Assessment Guidance manual exists to aid consideration of project and funding applications, enquiries and any expressions of interest as well as the scoring and decision making processes.

Review of LEADER administration grant claim processes, to include adequacy of:

a. Information and evidence compilation

Administration grant claim includes a summary of all costs with copies of ledger prints, invoices and bank statements to support claims. These documents were reviewed and found to be complete and accurate.

b. Records management systems

Records for claims are managed through the corporate ledger, payables and payroll systems. Prints from the various systems were reviewed during re-performance of the calculation for the January claim values.

c. Segregation of duties

Segregation of duties exists through the use of authorisation levels for the various systems and review and sign-off of the claims by senior staff members. Access to the financial ledgers and payroll system is managed through use of corporate network controls and systems administrators. Financial information is provided by the Council's finance team.

d. Compliance with grant claim regulations

Items of expenditure included within the claim for administration costs are consistent with the relevant guidance provided by the Scottish Government as outlined in the admin claim manual.

e. Effectiveness of communications between Accountable Body and Scottish Government team

It was evidenced that there is good communications between the AB and Scottish Government team via email, we were also advised that there is frequent communication by telephone often providing answers to queries immediately or within a short timeframe.

Financial Management

Financial Management arrangements in respect of the claims process is adequate, however, internal control in respect of regular monitoring, year-end review of balances and elements of record keeping require some remedial action. Roles and responsibilities

are not clearly defined and the external funding nature of the programme has resulted in this area not being subject to the same robust monitoring and forecasting protocols associated with revenue budget activity. Information is not being provided to budget holder as requested on a timely basis.

6. CONCLUSION

This audit has provided a Reasonable level of assurance. There is one recommendation for improvement identified as part of the audit. Appendix 1 sets out the action management have agreed to take as a result of the recommendation, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

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.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Financial Management		High/ Medium		
Monitoring and recordkeeping protocols require remedial action.	Failure to apply robust financial protocols may lead to financial misstatements and future funding difficulties.	High	Financial monitoring protocols for dealing with externally funded initiatives will be reviewed to ensure a coordinated and consistent approach exists between the Service and Strategic Finance	Finance Manager – Department Support 31 October 2016



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