

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 SERVICE LEVEL AGREEMENT 2016-17
AUDIT DATE	AUGUST 2017

2017/2018



1. BACKGROUND

This report has been prepared as part of 2017/18 risk based Internal Audit Annual Plan and has been conducted in accordance with relevant auditing standards. The report is based on discussions with key personnel and information available at the time of the Audit.

A review of Argyll and the Islands LEADER (Liaison Entre Actions de Developpement de l'Economie Rurale) 2014 - 2020 within Development and Infrastructure Services has been undertaken as part of the 2017 - 18 Internal Audit programme. This area has provided a substantial level of assurance and the Audit is included in the plan as part of Leader programme compliance arrangements at the request of the Economic Development Service.

The overall aim of the Argyll and the Islands LEADER Local Development Strategy is to “Support community-led economic growth and sustainable rural development within the Argyll and the Islands Local Action Group (LAG) area.”

LEADER has a strong history in Argyll and the Islands and has contributed significantly in the past to enabling rural communities to find their own solutions to development issues. Innovation has been a central component of this success, with LEADER providing the opportunity for piloting new approaches to rural development.

This LEADER Programme seeks, through close and positive partnership working, to support rural communities throughout the area to respond to some of the many development challenges that are still facing them.

To be eligible for support from the LEADER programme, a project must meet one or more of the themes and objectives as described in the Argyll & the Islands Local Development Strategy.

Argyll and the Islands LEADER has partner representatives from a wide range of public, private and community sector organisations. LAG members meet quarterly and have responsibility for assessing applications and awarding funding to successful applicants.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to review compliance with the requirements of the Argyll and the Islands LEADER 2014 – 2020 Service Level Agreement (SLA).

The following control areas were reviewed as part of the audit process:

Control Objective	Control Objective Assessment
Authority - Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice	High - All applications, awards and assessment are appropriately authorised. Roles and responsibilities are clearly defined and appropriate segregation of duties is in place.
Occurrence - Sufficient documentation exists to evidence compliance with policies, procedures and relevant legislation	Substantial – In general, documentation was referenced, complete and available for review. Original forms/documentation held in accordance with requirements. Minor weaknesses were identified and management notified accordingly.
Completeness - Policies and procedures are aligned to relevant legislation and all required documentation is accurately and fully maintained	Substantial – Applications, forms and checklists were fully completed and all records available for review.
Measurement - Policies and procedures are in line with requirements of relevant legislation	High - Policies and procedures are consistent with regulatory requirements and were appropriately followed.
Timeliness - Policies and procedures are regularly reviewed and updated as necessary	Reasonable – Documentation is submitted and reviewed in a timely manner. A weakness was identified and management notified accordingly.
Regularity - Documentation is complete, accurate and not excessive and is compliant with the data retention policy. It is stored securely and made available only to appropriate members of staff.	High – Documentation is maintained to a high standard and is compliant with the requirements of the Data Protection Act 1998.

3. RISKS CONSIDERED

SRR – Partnership Governance

Audit Risk – Non-compliance with Argyll and the Islands LEADER 2014 – 2020 Service Level Agreement (SLA)

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

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

Parties to the SLA are Scottish Ministers acting as the Paying Agency and Management Authority and Argyll and Bute Council as the Accountable Body for Argyll and the Islands Local Action Group (LAG).

The LEADER team have received 62 applications to date on the Leader Actions in Rural Communities system (LARCs) for the 2014-20 LEADER Programme. Funding has been approved by the LAG for 16 of these projects from which a sample of 3 was selected for review.

The following findings were generated by the audit:

Roles and Responsibilities

It was evidenced that services are provided as defined in the SLA:

- Applications are processed in accordance with guidelines, checklists, regulations and the Local Development Strategy
- Claims for LEADER grants are paid in accordance with instructions and checklists with systems providing adequate separation of duties and internal supervisory checking
- Checklists are completed by Assessor and approved by either Supervisor, Programme Manager, Chair or Vice Chair
- Claims, accounting, transactional and statistical data are submitted to Scottish Government through upload to LARCs
- From sample reviewed, only one project had received payments, there is no evidence of overpayment
- Financial and statistical data is monitored by Strategic Finance contacts through a robust budget monitoring process
- There is no evidence of a potential shortfall in delivery of services
- Internal Audit carry out an annual verification audit on LEADER programme
- Meetings are held with Scottish Government and/or representatives
- Ad hoc communications with Scottish Government enable effective co-ordination and discharge of responsibilities under SLA

Performance Measures

- All applications follow consistent process through use of form templates, guidance and use of LARCs
- Scoring sheets and spreadsheets are used and uploaded to LARCs, signed scoresheets are saved on the shared drive
- There was evidence of financial scrutiny in all files reviewed – each contained evidence of tendering for quotes and evaluation of at least 3 from which to award contract
- Minutes of LAG meetings and decisions are recorded including any declarations of interest for each project. Minutes are available on the shared drive
- There is evidence of administrative checks and inspections undertaken in compliance with regulatory requirements.

Counter Fraud and Compliance Activities

- Processes were found to complement EU regulatory requirements
- There have been no suspected breaches of contractual obligations by the Accountable Body or Paying Agency and no investigations undertaken in the current programme.
- Internal Audit operates in compliance with the Public Sector Internal Audit Standards
- An annual assessment of compliance with the requirements of the SLA is provided in the form of a report.

Prosecution and Litigation Arrangements

- Argyll and Bute Council as the Accountable Body records all information regarding projects on the shared drive area and on LARCs, this is available should it be required to support any criminal investigation.

Monitoring of Delegated Functions

- Accountable body provide staff to support visits from Paying Agency/Management Authority and Internal audit and co-operate with any request in relation to compliance with SLA.

Retention of Documentation

- Records are maintained on shared drive and on LARCs; access to these records are limited to appropriate officers via system users controls.
- Records relating to the current programme are required to be kept for 3 years following closure, 6 years from end of financial year during which final payment is made and 10 years where funding contributed to purchase of heritable property. The shared drive and LARCS have sufficient capacity to support this requirement.
- LARCs contained documentation for all projects reviewed.
- Scanned copies of signed legal documents were viewed on shared drive and on LARCs.
- Documentation was made available for review on shared drive and on LARCs system.

Provision of a Confirmation Certificate and Annual Report

- Accountable Body provides an annual confirmation certificate stating SLA obligations fulfilled by 31 October each year.
- Findings of work undertaken by Internal Audit will support this statement.

Conflicts of Interest

- The register of interests for LAG members held on the shared drive is comprehensive, however, requires updating.
- Minutes of LAG meetings record interests in applications by LAG members. Where there is an interest, the member will leave the meeting room during discussion of the project and return following completion and move onto the next project.

Gifts and Hospitality

- There is no register of offers. It was intimated that to date there has been no offers in relation to gifts or hospitality.

Confidentiality and Data Sharing

- Scottish Government's IT Security policy outlines requirements for use of LARCs. Agreement is in place to allow Accountable Body access to LARCs
- Accountable Body has Acceptable Use Policy, IT Security and Data Protection (DP) policies in place
- Accountable Body has Freedom of Information (Scotland) Act and DP subject access request processes in place

Financial Arrangements

- Claims for project expenditure are promptly recorded on LARCs following receipt of evidence of payment by applicant
- Administration cost claims have yet to be submitted in respect of the current year
- Internal controls are reviewed by Internal audit and report submitted annually
- No disallowance/ expenditure incurred do date
- No claims refused or reduced to date

Accountability

- Evidence available on file to support Rural Payments and Inspection Division and Scottish Government should it be required

6. CONCLUSION

This audit has provided a Substantial level of assurance as Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk”. There were 3 findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There was one action which will be reported to the Audit Committee. 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. LEADER Administration Claim				
Claims are required to be submitted quarterly.	Failure to submit claim for costs in a timely manner may result in disallowance leading to loss of income.	Medium	<p>First claim to be submitted by mid-October and up to date by end of December 2017</p> <p>(This is dependent on the turn around on the LARCS system)</p>	<p>European Support Officer</p> <p>31 December 2017</p>



Contact Details

Name Mhairi Weldon

Address Whitegates, Lochgilphead, Argyll, PA31 8SY

Telephone 01546 604294

Email mhairi.weldon@argyll-bute.gov.uk

www.argyll-bute.gov.uk

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