



Internal Audit Report

Final

Development Services Department

Review of LEADER funding

October 2009

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1 INTRODUCTION

- 1.1 This report has been prepared as a result of the Internal Audit review of LEADER funding as part of the 2009/10 Internal Audit programme.
- 1.2 LEADER funding is part of the European Rural funding programme, (Liaisons Entre Actions de Developement Économique Rurale) administered by the Scottish Government
- 1.3 The Council acts as lead partner to the Argyll & Islands LEADER Local Action Group, in accordance with a Service Level Agreement with Scottish Government Rural Payments and Inspection Directorate ('SGRPID').
- 1.4 LEADER Funding for 2007-2013 was notified in an Award Letter dated 17 September 2008 and consists of an amount of £2.8m LEADER funds for local community projects, with additional Convergence funding of £5.12m.
- 1.5 An Annual Confirmation Certificate, for the year to 15 October 2009, is required from the Council attesting that the delegated functions were carried out in accordance with guidelines / instructions issued to operational staff.
- 1.6 Internal Audit are required to carry out a review and provide a report as part of the supporting evidence in the 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, and verify that the accounts are accurate, complete and timely.

2 AUDIT SCOPE AND OBJECTIVES

Our approach will be designed to ascertain the controls operating over the approval of projects to be funded and the subsequent monitoring of expenditure claims and reporting.

We will confirm by review and sample testing that,

- all reporting arrangements to SGRPID have been complied with, and
- any notifications from SGRPID, with regard to testing that they have carried out, have been appropriately dealt with,
- on-going monitoring is built into the normal, recurring operating activities,
- an appropriately detailed audit trail is maintained for all operation and control activities.

3 RISK ASSESSMENT

As part of the audit process the risk register was reviewed to identify any risks that potentially impact on this audit. The following risks were identified from the Strategic Risk Register on Pyramid:

- SR13 Failure to comply with new legislation, regulations or statutory responsibilities;
- SR16 Failure to have a robust internal control process and system;
- SR24 Changes to Scottish Government (*or European*) Policy

These risks have been assessed during the course of the audit, including the interpretation of EC LEADER legislation by the Scottish Government.

4 CORPORATE GOVERNANCE

There are no Corporate Governance issues to be reported as a result of this audit.

5 MAIN FINDINGS

The points identified in this report relate largely to dealing with monitoring the progress of projects, ensuring applicants submit claims timeously and fully comply with claims procedures. These points must be resolved to ensure the continuing success of the LEADER programme but it is important to recognise that most of these issues had been identified by the Secretariat at the time of our audit and are in process of being resolved.

These points relate to ensure that:

- all relevant projects have complied with the 5% beneficiary contribution criteria;
- all match funding is clearly confirmed before claims are processed;
- notices of withdrawal are followed up;
- grant claims are being submitted timeously;
- delays in processing claims are minimised; and
- potential Data Protection Act issues are addressed.

In addition, our testing revealed a reporting error in the Claim 2 to 31 March 2009, submitted to the Scottish Government, on the analysis of grants paid between capital and current projects. This will require to be corrected as part of the year end report.

6 RECOMMENDATIONS

Seven recommendations were identified as a result of the audit, all of medium priority. The recommendations are shown in the action plan below.

7 AUDIT OPINION

Based on the findings we can conclude that the LEADER Local Area Group have developed a structured approach for developing, reviewing and approving applications, which minimises the rejection of inappropriate projects.

Guidelines and details of all approved projects are readily available on a local LEADER website. Details of claims and progress is recorded on an established database system, and this is supported by individual project files.

We can report that Argyll & Bute Council, as lead partner for the Argyll & the Islands Local Action Group have complied with the Service Level Agreement with SGRPID signed in October 2008; and

- all reporting arrangements to SGRPID have been complied with, subject to the analysis errors noted on claim 2 to 31 March 2009;
- on-going monitoring is built into the normal, recurring operating activities,
- an appropriately detailed audit trail is maintained for all operation and control activities.

Since the outset of this LEADER programme there have been no visits by SGRPID to carry out testing, in accordance with the Service Level Agreement. There have therefore been no notifications to deal with.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Any recommendations not implemented will be reported to the Audit Committee, and, if material, could be reported in the Internal Control Statement produced by the Council in support of the Annual Accounts.

8 ACKNOWLEDGEMENTS

Thanks are due to the Senior Development Officer and the European Support Officer for their co-operation and assistance during the Audit and the preparation of the report and action plan.

Argyll & Bute Council's Internal Audit section has prepared this report. Our work was limited to the objectives in section 2. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.

This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 4 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	<p>5% beneficiary contribution criteria An exercise was being carried out by the Secretariat, to check whether this requirement had been met in all relevant cases.</p>	<i>Medium</i>	The exercise, to identify any projects which do not satisfy the 5% beneficiary contribution criteria, should be completed as soon as possible with any breaches being reported to the Scottish Government as part of the formal year end reporting.	Senior Development Officer	The exercise to identify projects has been carried out and these projects will be reported to the SG and advice sought on how to proceed
2	<p>Match funding It was noted that certain projects identified for LEADER funding formed part of larger projects which received significant funding from bodies such as the Heritage Lottery Fund and Argyll & Bute Council. In these cases it was not always clear how the overall allocation of funding from these bodies had been split between the associated projects to provide the necessary element of match funding within the LEADER project.</p>	<i>Medium</i>	Project applicants should be asked to provide a full analysis of the overall funding for their projects to enable the match funding on the LEADER project to be clearly identified and confirmed. This would also provide an overview to confirm that LEADER funding was appropriate in supporting 'a distinct phase of a large project for which another distinct phase is funded under a different programme.'	Senior Development Officer	This has now been implemented and will take effect on applications submitted to December LAG

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
3	<p>Notices of Withdrawal Our examination of project files revealed two associated cases for Argyll Fisheries Trust where 21days notice of withdrawal of grant had been issued on 21 May 2009 but no further action appeared to have been taken</p>	<i>Medium</i>	<p>3.1 Where a 21day notice of withdrawal is issued a formal diary system should be introduced to review the situation at the end of the notice period. At this point it should be determined whether there has been suitable contact from the applicant to rectify the situation or whether the formal withdrawal of grant should proceed. At this stage the project file should be suitably updated to record the determined course of action.</p> <p>3.2 In addition, there is a need to review the procedure for updating the project file with copies of e.mail communications, or when a claim for grant is received, to ensure that the current position can be readily ascertained.</p> <p>3.3 We would also suggest that the unprocessed, or partially processed, grant claims should be stored within the project files, which are kept in fireproof filing cabinets. The Claims Officer would need to keep an up-to-date listing of claims that are currently being processed but this would not only provide greater security over the claim documentation in the event of a minor fire, but would provide better data control in the Claims Officer's absence.</p>	<p style="text-align: center;">Senior Development Officer</p> <p style="text-align: center;">Senior Development Officer</p> <p style="text-align: center;">Senior Development Officer/ Claims Officer</p>	<p>A system has now been put in place to review projects with formal notices of withdrawal and all correspondence and courses of action will be recorded in the project file.</p> <p>As above this recommendation has now been implemented</p> <p style="text-align: center;">This recommendation is currently being put in place</p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	<p>Claims not submitted timeously Our review of a sample of project files revealed instances, where claims had apparently not been submitted within the prescribed timescale, and were not being actively pursued.</p>	<i>Medium</i>	A formal review procedure should be implemented on a quarterly basis to ensure that all projects are progressing normally and grant claims are being received timeously.	Senior Development Officer	Current procedures re late claims are under review with Project Coordinators input and will be formalised by January 2010
5	<p>Delays in processing claims We note that in a number of cases there have been delays in processing claims due to the data supplied in support of wage payments being insufficient to meet the funding criteria.</p>	<i>Medium</i>	An exercise should be carried out to bring the payment of all outstanding claims up-to-date as soon as possible to ensure the on-going financial viability of the projects.	Senior Development Officer	This is a continuous process, and claims training with applicants has been put in place to tackle the problem of lack of evidence / documentation required in claims. Meetings with Finance are still ongoing to resolve the evidence required in Council led projects.

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
6	<p>Data Protection & FOI Our review of project files revealed two small organisations (Fyne Futures Ltd. and Cowal Elderly Befriending Scheme) were submitting copies of their full payroll in support of grant claims. The payrolls included details of employees who were not involved in the LEADER grant aided project but the payroll total was required to identify the wages payment being processed through their bank statements.</p> <p>Disclosure of non-relevant payroll detail constitutes a breach of the Data Protection Act by these external organisations and the Council should only retain on file information that it requires and is entitled to hold.</p>	Medium	<p>6.1 These organisations should be instructed to obscure the identity of non-relevant staff on the payroll, in support of future claims. This can be done with a permanent marker pen or tippex and then submitting a photocopy of the payroll.</p> <p>6.2 In addition, the Council's Data Protection and Information Security Administrator has suggested that grant applicants should ensure that they have advised relevant staff that their payroll details are being revealed to an external organisation in support of a LEADER grant claim to avoid breaching the Data Protection Act.</p> <p>6.3 In respect of the grant claims already received, the non-relevant payroll details on our files should be obscured with a marker pen or tippex and a photocopy of the amended document retained on file.</p>	<p>Senior Development Officer</p> <p>Senior Development Officer</p> <p>Senior Development Officer</p>	<p>Amendments to guidelines will be introduced by January 2010 to advise applicants accordingly.</p> <p>Consideration is being given to the best method of advising successful applicants of this either by para in award letter or amending guidelines. This will be done by January 2010.</p> <p>This is an ongoing process which should be completed by February 2010</p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
7	<p>Reporting to the Scottish Government Our detailed review covered completion of the Quarterly Claim to 31 March 2009.</p> <p>We understand that it was agreed that Section 5 of the claim be completed on a quarterly basis, rather than providing a monthly analysis. However, it was noted that the analysis of grant paid in column (e), between Current and Capital for both LEADER and Convergence funding did not agree with the underlying analysis</p>	<i>Medium</i>	<p>7.1 A check should be carried out to ensure that the figures submitted in Claim 1 were correctly stated.</p> <p>7.2 Revised figures should be advised to Scottish Government as part of the year end reporting.</p> <p>7.3 An additional review check of future claims should be carried out to ensure that the figures on the supporting Excel schedule have been correctly compiled.</p>	<p>Senior Development Officer/Business & European Support Officer</p> <p>Senior Development Officer/Business & European Support Officer</p> <p>Senior Development Officer/Business & European Support Officer</p>	<p>This will be reviewed by November 2009</p> <p>Will require to follow the above timetable and any corrections will be advised to SG through the January 2010 claim and will be recorded in the Register of Irregularities that has now been drawn up.</p>