Internal Audit Report

FINAL

Development & Infrastructure Services

Review of LEADER Self Assessment ICQ

June 2010

1   **INTRODUCTION**

1.1   This report has been prepared as a result of the Follow-up Internal Audit review of LEADER funding as part European and Government Grants audit programme for 2010 – 2011.

1.2   LEADER funding is part of the European Rural funding programme, (Liaisons Entre Actions de Development 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.

2   **AUDIT SCOPE AND OBJECTIVES**

Following a meeting with the Scottish Government Audit Department, Internal Audit was provided with a Self Assessment Internal Control Questionnaire in order to trial it. Internal Audit has now completed the questionnaire with the assistance of the Senior Development Officer responsible for the LEADER programme. This provided an assessment of compliance with control requirements for the Accreditation of Paying Agencies under Commission Regulations 885/2006.

The   broad   objectives   of   the   review   were   to   identify:

 •   any controls that do not fully comply with European Union (EU) or Scottish Government requirements;
 •   any required amendments to existing control procedures; and
 •   any new control procedures to address the post completion inspection requirements.

A summary of the main headings and findings from the ICQ is included at Appendix 3.

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, including the interpretation of Economic Community (EC) LEADER legislation by the Scottish Government, have been assessed during the course of the audit.

4 CORPORATE GOVERNANCE

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

5 MAIN FINDINGS

Completion of the Self Assessment ICQ provided by the Scottish Government Audit Department has identified a number of amendments that are required to be made to current control procedures, particularly in view of the impending retirement of the Senior Development Officer, including:

- Appropriate authorisation level for individual payments should be determined for the Senior Development Officer,
- A draft organisational chart should be extended to include the external services provided by Legal Services and Debtors,
- Job descriptions should be available for all LEADER staff providing a complete and accurate description of current roles,
- Fraud awareness training should be provided to staff,
- The LEADER staff operational guidelines should contain reference to the Council's anti fraud policy within the Council Constitution and to the Council's 'whistle blowing policy.'
- The proposed Register of Interests should be implemented.

In addition, to ensure that the requirement for post completion checks can be implemented on a cost effective basis, there is a need to prepare a formalised risk assessment. This should identify specific risks and mitigating controls which will assist in developing a programme of checks that should form the post project inspection. Many of the LEADER projects involve small community groups and it is likely that the associated risks will be low. However, in certain exceptional cases these checks might require additional technically qualified staff from within the Council to assess specific financial, building construction or environmental risks.

A further issue is under investigation regarding the Council's compliance with specified Information Security Standards. It appears that the Council does not wholly adopt either of the standards recognised by the Scottish Government Auditors. This issue may therefore be referred to the Internal Auditors IT specialists to confirm that there are no deficiencies in the adopted approach.

6   RECOMMENDATIONS

Ten recommendations were identified as a result of the audit, one high and seven medium and two low priority. The recommendations are shown in the action plan below.

Each recommendation receives a weighting and this is set out in the table 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 it if were rectified;

Low - low 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.

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7   AUDIT OPINION

The auditor is satisfied that the section has answered the ICQ in an appropriate manner.

Based on the findings we can conclude that there are good operational controls, particularly relating to segregation of duties, within the LEADER team. However, a formal risk assessment is required to enable the required post completion inspection checks to be implemented on a cost effective basis.

Recommendations arising from the audit work should be implemented by the nominated responsible officer within the agreed timescale. Recommendations not implemented will require explanation to the Audit Committee. This could lead to findings being 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 2   ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	There is no formal authorisation limit for the Senior Development Officer with regard to the authorisation of payments.	*Medium*	We would recommend that an appropriate authorisation level for individual payments should be determined for the Senior Development Officer, with any amounts exceeding the level requiring to be countersigned by senior management, as authorisation for payment by Creditors section.	Head of Economic Development and Strategic Transportation	Completed July 2010 (Up to £50K – Senior Development Officer) (over £50K – Economic Development Manager)
3	Full job descriptions are not available for all LEADER roles	*Medium*	Job descriptions should be prepared or reviewed to ensure that they provide a complete and accurate description of current roles.	Senior Development Officer	No date set due to current service reviews (staff may refer to information in detailed admin procedures)
4	There is a general need for fraud awareness training to be provided to all staff members and this has been requested from Internal Audit.	*Medium*	The content of the fraud awareness training should be agreed with Development Services management and provided to staff as soon as possible.	Chief Internal Auditor	Carried out July 21 2010

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
5.1	Staff should be aware of the Council's anti fraud and whistle blowing policies.	*Medium*	The LEADER staff operational guidelines should contain reference to the Council's anti fraud policy within the Council Constitution and to the 'whistle blowing policy.'	Senior Development Officer	September 2010 (Subject to receiving current work on changes to Council Constitution)
5.2	In common with other areas of the office that have direct dealings with the public involving financial arrangements, it is proposed that a Register of Interests is maintained containing relevant information for all staff.	*Medium*	The form and content of the proposed Register of Interest should be finalised as soon as possible so that the Register can be implemented.	Senior Development Officer	Circulated for completion July 2010. Implementation date for completed returns 30 September 2010.
6.1	The EC requirements for the post project inspections must therefore be clearly defined to ensure that they are addressed in a cost effective manner that does not impact adversely on	*High*	A formal risk assessment should be prepared identifying the specific risks of fraud, error or failure to comply with the LEADER requirements, and the mitigating controls that already exist to minimise these risks. This will assist in	Economic Development Manager	September 2010

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	the Council.		developing a programme of checks that should form the post project inspection		
6.2	Any changes of ownership, cessation, relocation or other substantial modification within five years of a funding decision must also be addressed.	*Medium*	We also recommend that a diary system is introduced to provide a mechanism to monitor completed projects over the five years post completion, to ensure that any changes of ownership, cessation, relocation or other substantial modification are identified.	Senior Development Officer	(Appropriate fields in Leader database identified July 2010. New staff guidance drafted August 2010)

September 2010 |
| 8 | We are advised that the Council's security procedures do not fully comply with either I.S.O. 1779 or British Standard 7799 Code of Practice for Information Security Management. | *Medium* | A copy of the response from the Council's IT Department should be forwarded to Internal Audit for consideration by their IT specialists. | Senior Development Officer | Response from IT forwarded 5 July 2010 |

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	A further explanation is awaited from the Council's IT Department...				