



Internal Audit Report

FINAL

Development & Infrastructure Services

Review of LEADER funding certification 2009/10

November 2010

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 Développement Économique Rurale) administered by the Scottish Government. LEADER is part of the Scotland Rural Development Programme (SRDP) administered by the Scottish Government. LEADER is Axis 4 of the Rural Development Regulation (EC) no. 1698/2005.
- 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. A further allocation of £970K has been notified in August 2010.
- 1.5 An Annual Confirmation Certificate, for the year to 15 October 2010, 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 is 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 was designed to ascertain the controls operating over the approval of projects to be funded and the subsequent monitoring of expenditure claims and reporting.

We confirmed 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; and
- An appropriately detailed audit trail is maintained for all operation and control activities.

3 RISK ASSESSMENT

As part of the audit process the Council 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

However, the over-riding Corporate Risk inherent in the above is the Financial Risk of Claw back of part, or all, of the £8.89m LEADER Programme and Convergence Funding by EC.

4 CORPORATE GOVERNANCE

The governance arrangements for handling LEADER funding are unusual in that applications for projects grants are approved by the LEADER Action Group (LAG), with partner representatives from the Council and a wide range of public and community sector organisations.

They have responsibility not only for awarding funding to successful applicants, but also have responsibility for delivering the 'Local Development Strategy.' This includes managing the budget and making ongoing strategic decisions on running the LEADER programme within Argyll & the Islands.

Whilst the above governance arrangements reflect standard practice in the way that LEADER operates throughout Europe, it conflicts with the Council's normal operating arrangements for the delegation of authority.

A separate report has been prepared for management regarding the Council's governance arrangements, and for internally reporting the LEADER activities to the Council's Strategic Management Team (SMT).

5. AUDIT OPINION

Based on the findings we can conclude that the LEADER Local Action Group has developed a structured approach for developing, reviewing and approving applications, which maximises the acceptance of appropriate projects.

Guidelines and details of all approved projects are readily available on a local LEADER website. Details of claims and progress are 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 has complied with the Service Level Agreement which SGRPID signed in October 2008; and

- All reporting arrangements to SGRPID have been complied 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.

Since the outset of this LEADER programme there has been one advisory visit, on 4 March 2010, by SGRIPD auditors, in accordance with the Service Level Agreement. The only notification arising from this review related to confirmation that the Information Systems Security aligns with the requirements of the SLA, and this has been dealt 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.

6 RECOMMENDATIONS

Seven recommendations were identified as a result of the audit, 3 of high priority and 4 of medium priority. The recommendations are shown in the action plan below.

7 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 5 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	<p>Fast Track Approval of Applications</p> <p>A fast track approval was granted on a simple vote despite the applicant not removing core costs requested by the LAG, and two members expressing strongly worded views that the project should not be approved.</p>	<p><i>High</i></p> <p><i>High</i></p>	<p>1.1 This project requires a further detailed review as the inclusion of the full core staff costs does not reflect the reality that they will be mainly employed on the separately funded project. It is therefore likely that in its current format it is ineligible for LEADER funding.</p> <p>1.2 There requires to be a review of fast track procedures to ensure that only minor deficiencies are dealt with in this manner. Clearly, where changes have been requested by the LAG, the Secretariat must provide guidance to the LAG on the adequacy of the response, thereby seeking to protect the Council's interest.</p>	<p>Economic Development Manager</p> <p>Economic Development Manager</p>	<p>31st January 2011</p> <p>31st January 2011</p>
2	<p>Advance Funding</p> <p>£13,750 had been paid in advance to a community group that was experiencing cash flow problems at the outset of a project. On investigation, the apparent confirmation of £10,000 of match funding related to another project; and the apparent requirement of the match funders to only pay on</p>	<p><i>Medium</i></p> <p><i>Medium</i></p>	<p>2.1 There is a need to further investigate the match funding of this particular project to ensure that it remains eligible under LEADER rules.</p> <p>2.2 The Council should consider whether they wish to continue granting advance funding, and if so, define the circumstances and procedures to be followed.</p>	<p>Economic Development Manager</p> <p>Director / Head of Economic Development & Strategic Transportation</p>	<p>31st January 2011</p> <p>31st January 2011</p>

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4	<p>Delays in processing claims As noted last year there are a number of cases where 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> <p>LEADER support staff producing documentation in support of claims may potentially impact on the segregation of duties to ensure their impartiality on checking claims.</p>	<i>Medium</i>	<p>4.1 The potential impact on segregation of duties should be recognised and considered as part of the review of roles which may be required in compliance with the new Service Level Agreement.</p>	<p>Head of Economic Development & Strategic Transportation to consider the proposal that Finance provide approval to Departments to access Oracle</p>	31st January 2011