



Internal Audit Report

FINAL

Development & Infrastructure Services

**Review of LEADER funding
Service Level Agreement changes 2010/11**

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 Developement 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. This has now been completed and sent to the Scottish Government on 28 Oct 2010.
- 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.

An initial report has been prepared with regard to compliance with the Service Level Agreement for the year to 15 October 2010. In addition, we have extended our review to consider the governance implications of the new SLA which has been received from the Scottish Government.

This document has not yet been accepted on behalf of the Council as there are significant changes, imposing stricter operational arrangements which impact on the Council's corporate risk of financial clawbacks in the event of administrative error or non-compliance with the stricter guidelines in the SLA.

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. Chairmanship of the LAG is not currently held by a Council representative.

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.

The Lead Partner is Argyll & Bute Council, with responsibility for employing staff and making grant payments on behalf of the LAG, and providing secretariat support view.

Therefore, while the Council currently provide a Secretariat function at the LAG meetings, currently the Senior Development Officer, it is the LAG who are accepting the projects, and committing the Council to accepting the associated financial risk of claw back.

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

5. AUDIT OPINION

The impending introduction of a new Service Level Agreement (SLA) with the Scottish Government imposes a need for a careful review of operational responsibilities to ensure that the Council protects the financial risk of delegating the commitment of LEADER funds to an external body, the Local Action Group. The new

Service Level agreement (SLA) seeks to impose tighter operating arrangements on the Council, under clarification of underlying EC regulations.

Many of the issues raised have already been addressed following a review by Internal Audit using a Self Assessment Internal Control Questionnaire, supplied by the Scottish Government Audit Department. This provided an assessment of compliance with control requirements for the Accreditation of Paying Agencies under Commission Regulations 885/2006.

However, there are further issues regarding the segregation of duties that have staffing, and associated cost, implications. These matters are not dealt with in this report but require consideration prior to acceptance of the SLA.

Our primary concerns relate to the Council's relationship with, and reliance on, the LEADER Local Action Group. Bearing in mind the rise in exposure from £2m to £8.89m funds under management, there are no formal governance arrangements for reporting the LEADER activities to the Council's Strategic Management Team (SMT).

The further points identified in our earlier report, regarding compliance with the existing SLA, related to ensuring that:

- All match funding is clearly confirmed before claims are processed;
- Notices of withdrawal are followed up;
- Advance payments are tightly controlled; and
- Administrative funding arrangements with the Scottish Government are formalised.

6 RECOMMENDATIONS

Seven recommendations of high priority were identified as a result of the audit. 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 2 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1.	<p>New Service Level Agreement There are new draft SLA requirements regarding the segregation of duties of staff and the need to involve specialist staff to detect or deter fraudulent project activity.</p>	<i>High</i>	<p>1.1 Representations need to be made to Scottish Government to clarify the cost implications of additional staff requirements to comply with the proposed additional segregation of duties and specialist reviews. If these arrangements are to be complied with additional funding of the LEADER programme will be required.</p>	Director of Development and Infrastructure	31st January 2011
2.	<p>Reporting to the Scottish Government The Council has been operating under a partly undocumented arrangement whereby the Scottish Government have funded staff costs in excess of the administrative percentage directly funded by the LEADER programme.</p>	<i>High</i>	<p>2.1 The Council should ensure that the current administrative funding arrangements are fully documented as part of the negotiations to agree the new Service Level Agreement.</p>	Economic Development Manager following guidance from Senior Management	31st January 2011
3.	<p>Acceptance of Projects by LAG With almost £9m of LEADER funds under tighter EC regulation, the Council only provide a Secretariat function at the LAG meetings. It is the LAG who are accepting the projects, and committing the Council to accepting the associated financial risks.</p>	<i>High</i>	<p>3.1 It is imperative that the Council addresses the risks of financial claw backs and implement appropriate governance arrangements. As part of this process they may wish to consider, subject to the agreement of the LAG, preparing a formal constitution for the LAG, together with an associated Service Level Agreement that acknowledges the LAGs responsibility for accepting risk on behalf of the</p>	Director of Development and Infrastructure	31st January 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
		<i>High</i>	<p>Council.</p> <p>3.2 Consideration should be given to formalising regular reporting of the LEADER activities and financial commitment to the Strategic Management Team on a regular basis.</p>		31st January 2011
4	<p>Approval of Projects</p> <p>4.1 The technical review of the projects being submitted to a LAG meeting is not formally signed off by an independent official on behalf of the Council.</p> <p>4.2 There is a potential conflict in the role of Project Co-ordinators in regulating the eligibility and risk of projects, whilst trying to maximise the take-up of the available funds.</p>	<i>High</i>	<p>4.1 To minimise the risk to the Council of inappropriate projects being accepted by the LAG consideration should be given to formalising and allowing more time, from receipt of application, to carry out the “eligibility checks” on applications, before they are circulated to LAG members. As part of this revised process, the technical review of projects should be signed off by the Senior Development Officer/Economic Development Manager (interim measure) to accept, on behalf of the Council, that projects are appropriately documented and suitable for submission to the LAG. We appreciate that there is a time and resource issue with regard to this recommendation that requires balanced consideration.</p> <p>4.2 As part of the process of reconsidering the Council’s governance and exposure to risk with regard to the operation of the LAG, the roles of the Project Co-ordinators should be formally defined to determine clearer</p>	<p>Director of Development and Infrastructure</p> <p>Economic Development Manager</p>	<p>31st January 2011</p> <p>31st January 2011</p>

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4.3	Whilst conditional approval has always been available within LEADER, subject to match-funding being confirmed within a given timescale, the implications of this are that the LAG may be approving projects that have not yet had the detailed financial review and acceptance of external funders.	<i>High</i>	rules of operation. 4.3 Formalised procedures should be drawn up to guide the LAG as to the exceptional circumstances, or additional checking procedures that should be adhered to when granting conditional acceptance in advance of match funding.	Economic Development Manager	31st January 2011