



## **Internal Audit Report**

FINAL

Development and Infrastructure

**LEADER Funding**

October 2011

## **1 INTRODUCTION**

- 1.1 This report has been prepared as the result of an Internal Audit review of LEADER funding as part of the 2011/12 Internal Audit Programme.
- 1.2 LEADER, (Liaisons Entre Actions de Development Economique Rurale) funding is part of the Scottish Rural Development Programme (SRDP) and is delivered by Local Action Groups (LAGs) approved by the Scottish Government.
- 1.3 The Council acts as lead partner to the Argyll and Islands LEADER Local Action Group, in accordance with a Service Level Agreement with Scottish Government Rural Payments and Inspection Directorate (SGRIPD).
- 1.4 LEADER Funding for 2007 – 2013 consists of an amount of £3.77m LEADER funds with additional Convergence funding of £5.12m.
- 1.5 LAG members have responsibility for delivering the Local Development Strategy and making ongoing strategic decisions on the running of the LEADER programme within Argyll and the Islands. The LAG also has responsibility for awarding funding to successful applicants.
- 1.6 The Council, as lead partners are responsible for employing staff, providing secretariat support and managing budgets.
- 1.7 As lead partners the Council must ensure that an annual confirmation certificate covering the year 16 October 2010 to 15 October 2011 is provided.
- 1.8 Internal audit is required to carry out a review and provide an annual report as part of the supporting evidence in 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.

## **2 AUDIT SCOPE AND OBJECTIVES**

- 2.1 The audit approach taken was to undertake sample testing in key activity areas where guidance is prescriptive:
  - Project applications - to ensure completeness and compliance with guidance;
  - Claim process - to ensure the claim process is robust and compliant with guidance; and

- Review the responsibilities of the LAG to ensure best practice is being observed.
- 2.2 As part of the process, a questionnaire was prepared by Internal Audit based on Scottish Government technical guidance and completed by Economic Development staff providing an overview of the standards and processes operated by Argyll & the Islands LEADER LAG. This work has assisted the auditor in assessing whether the technical guidance is being followed and to identify areas where further examination was required.
- 2.3 The auditor attended the September 2011 LAG meeting to observe the practices adopted for appraising applications for funding.

### **3 RISK ASSESSMENT**

- 3.1 As part of the audit process the risk register was reviewed to identify any risks that potentially impact on the audit. The following risks were identified.
- 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.

### **4 CORPORATE GOVERNANCE**

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

### **5 MAIN FINDINGS**

- 5.1 The Argyll and Islands LEADER Local Action Group has created and continues to develop a structured approach for developing, appraising and approving applications for LEADER funding.
- 5.2 Amendments are being made to the current procedures to comply with the new requirements of the SLA which the Scottish Government signed in August 2011.
- 5.3 Advance Payments are no longer provided to projects by the lead partner however the procedures have not been updated to reflect this change.

- 5.4 The absence of an overall reconciliation between the Council's ledger and the claim for LAG administration costs has resulted in an error in the Quarter 1 return, to the Scottish Government, resulted in an over claim of £742.74 not being identified.
- 5.5 The sample testing carried out by the auditor, along with analysis of the completed questionnaire, attendance at a LAG meeting and discussion with relevant key staff members confirms that there are sound systems in place to ensure that as lead partner for the Argyll and Islands LEADER LAG, Argyll and Bute Council is adhering to the technical guidance and is compliant with the Service Level Agreement signed in August 2011.

## **6 RECOMMENDATIONS**

Twelve recommendations were identified as a result of the audit, 2 rated as high priority and 10 rated as medium priority. The recommendations are shown in the action plan attached at Appendix 2 and has been compiled with the co-operation and agreement of the Supervisor/Manager.

Internal Audit considers that, in an effort to improve the quality of information, monitoring and control, the recommendations should be implemented in accordance with the agreed action plan. Management have set achievable implementation dates and will be required to provide reasons to the Audit Committee for failure to implement within the agreed timescale. Where management decides not to implement recommendations it must evaluate and accept the risks associated with that decision.

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 fundamental, material or minor. 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.

## 7 AUDIT OPINION

Based on the findings of the audit we can conclude that the Argyll and Islands LEADER Local Action Group has a structured approach for developing, appraising and approving applications for LEADER funding.

As lead partner for the Argyll and the Islands LEADER Local Action Group, the Council has created and continues to develop sound processes and procedures which ensure that they adhere to the technical guidance and comply with the new Service Level Agreement with Scottish Government Rural Payments and Inspection Directorate (SGRPID).

The recommendations made in this report should help to strengthen the already sound processes and procedures in place.

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 following for their co-operation and assistance during the Audit and the preparation of the report and action plan.

- Economic Development Manager
- Business and European Support Officer
- Grant Administration Assistant
- LEADER Project Co-ordinators
- Chairperson and members of the Argyll and the Islands LEADER Local Action Group

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. In any circumstances where anyone other than the Council accesses this report it is on the strict understanding that the Council will accept no liability for any act or omission by any party in consequence of their consideration of this report or any part thereof. 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>The new SLA requires the Council (as the lead partner) to ensure that staff involved in on the spot and ex-post checks of funded projects to not have been previously involved with these; nor in any administrative checks on these projects. The term “on the spot inspection” was previously used by the project co-ordinators to refer to project monitoring visits and the current Administrative and Reporting Procedures refers to them as such.</p>	Medium	<p>The Administrative and Reporting Procedures must be updated to include on the spot checks and the terminology to describe monitoring visits should be changed to avoid confusion. Where the checks have to be carried out by a staff member not previously involved in administrative checks of the same project, this should be documented.</p>	Economic Development Manager	31 <sup>st</sup> October 2011
2	<p>Advance Payments are no longer provided to projects by the lead partner however the procedures have not been updated to</p>	Medium	<p>The Administrative and Reporting Procedures should be updated to reflect the current position in relation to advance</p>	Economic Development Manager	31 <sup>st</sup> October 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	reflect this change.		payments.		
3	The LAG minutes in relation to deferred applications wrongly record that fast track is acceptable.	Medium	In future, deferred applications should be recorded as such in the LAG minutes and should not be confused with fast track approval of new applications.	Economic Development Manager	15 <sup>th</sup> December 2011 – next LAG meeting
4	The current process for approving deferred applications may not stand up to scrutiny.	Medium	The LAG should consider amending the process for approving deferred applications to ensure any decision made can stand up to scrutiny. Consideration should be given to restricting the circulation of information in relation to a deferred application to the LAG members who were present at the LAG meeting at which the application was originally discussed. LAG members who are canvassed should be	Economic Development Manager	15 <sup>th</sup> December 2011 – next LAG meeting, discuss this recommendation with LAG members.



No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			required to vote or if they chose to abstain they should notify the project co-ordinator accordingly and this should be recorded.		
5	There are no documented procedures in place for dealing with deferred applications where e-mail is used to communicate additional information and clarification to and record the votes of the LAG members.	Medium	The procedures for deferred approvals should be documented in the Administrative and Reporting procedures	Economic Development Manager	31 <sup>st</sup> October 2011
6	The procedures for Fast Track Applications do not indicate that the LAGs Rules of Procedure must be adhered to and that the quorum requirements must be met.	Medium	The Fast Track Application procedures should be reviewed to ensure that any applications which are fast tracked go through the same rigorous process as they would were they discussed and voted on at a LAG meeting. The procedures should record that the LAG's Rules of	Economic Development Manager	31 <sup>st</sup> October 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
			Procedure must be adhered to and that quorum requirements must be met.		
7	The procedures for Fast Track Applications state that the decision is reached by a simple majority and that failure to respond by a LAG member would be recorded as an abstention.	Medium	In relation to Fast Track Applications, LAG members should be required to vote or if they chose to abstain they should notify the project co-ordinator accordingly and the reason recorded	Economic Development Manager	15 <sup>th</sup> December 2011 – next LAG meeting, discuss this recommendation with LAG members.
8	A claim from the Argyll and Bute Business Gateway Project - Competitive Business Growth Programme pilot has been held awaiting clarification on the management of umbrella projects. In addition concerns were raised about the eligibility of expenditure which had been reimbursed to the project in a previous claim.	Medium	On receipt of the updated guidance from RCET the Council must ensure that the relevant technical guidance has been followed in relation to the Argyll and Bute Business Gateway - Competitive Growth Programme pilot and that all previous claims submitted by them include only eligible expenditure.	Economic Development Manager	31 <sup>st</sup> October 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
9	There is no evidence on file that the award of work, in excess of £1,000 by The Long and Winding Way Ltd was as the result of a competitive process.	Medium	The LEADER Grant Administration Officer must obtain confirmation from the project that the award of work in excess of £1,000 has been subject to a competitive process.	Economic Development Manager	31 <sup>st</sup> October 2011
10	The absence of an overall reconciliation between the Council's ledger and the claim for LAG administration costs has resulted in an error in the Quarter 1 return to the Scottish Government resulting in an over claim of £742.74 not being identified.	High	The error in the Quarter 1 claim must be corrected and the Scottish Government reimbursed with the amount of the over claim, £742.74.	Economic Development Manager	31 <sup>st</sup> October 2011
11	The absence of an overall reconciliation between the Council's ledger and the claim for LAG administration costs has resulted in an error in the	High	The claim submitted to the Scottish Government in respect of LAG administration should always be reconciled to the Council's ledger to ensure	Economic Development Manager	31 <sup>st</sup> October 2011

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
	Quarter 1 return to the Scottish Government resulting in an over claim of £742.74 not being identified.		that it reflects accurately the costs incurred by the Council.		
12	There is no formal induction process for LAG members.	Medium	The LAG should consider a more formal process to communicate the responsibilities of the LAG membership to new members. This could take the form of a letter or an induction pack welcoming them to the LAG and outlining their requirements and providing them with a hard copy of the Terms of Reference and Rules of Procedure for the LAG.	Economic Development Manager	15 <sup>th</sup> December 2011 – next LAG meeting, discuss this recommendation with LAG members.