



Internal Audit Report

Development and Infrastructure

LEADER Funding - Annual Certification

October 2012

1 INTRODUCTION

- 1.1 This report has been prepared as the result of an Internal Audit review of LEADER funding as part of the 2012/13 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 on-going 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 is responsible for employing staff, providing secretariat support and managing budgets.
- 1.7 As lead partner the Council must ensure that an annual confirmation certificate covering the year 16 October 2011 to 15 October 2012 is provided.
- 1.8 Internal Audit is required to undertake 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 was completed in co-operation with Economic Development staff providing an overview of the standards and processes operated by Argyll and 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 reviewed projects funded by LEADER and visited a project currently in progress in October 2012 to review compliance and observe the practices adopted for appraising applications for funding, the decision and project delivery.

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 continues to develop a structured approach for developing, appraising and approving applications for LEADER funding.
- 5.2 The deferred applications process could be further strengthened.
- 5.3 The absence of an overall reconciliation between the Council's ledger and the claim for LAG administration costs has resulted in an under claim of £145 in June quarter 2012.
- 5.4 The auditor found 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 agreed Service Level Agreement.

6 RECOMMENDATIONS

Three recommendations were identified as a result of the audit. These were 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 has 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 the LAG adheres 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
- European Support Officer
- Grant Administration Assistant
- LEADER Project Co-ordinators

Argyll and 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	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.	Economic Development Manager	26 th October 2012 The deferred applications section in the Argyll and the Islands LEADER Administration and Reporting Procedures will be strengthened to make the decision making process more explicit. The LAG will be informed of this action at the next LEADER LAG meeting on 13 th December 2012.
2	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	Medium	The procedures for deferred approvals should be documented in the Administrative and Reporting procedures	Economic Development Manager	26 th October 2012 The deferred approvals section in the Argyll and the Islands LEADER Administration and

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	the votes of the LAG members.				Reporting Procedures will be strengthened to make the procedure more explicit.
3	The absence of an overall reconciliation between the Council's ledger and the claim for LAG expenditure to ensure that over the financial year the Council have recovered all eligible costs.	Medium	It is recommended that reconciliation be undertaken at 6 month intervals. This will ensure that all eligible recoverable costs incurred by the Council are reclaimed.	Economic Development Manager	26 th October 2012 This advice will be followed for now on at six monthly intervals.