Internal Audit Report

Development and Infrastructure

LEADER Funding - Annual Certification

October 2013

1   INTRODUCTION

1.1   This report has been prepared as the result of an Internal Audit review of LEADER funding as part of the 2013/14 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 (LAG), in accordance with a Service Level Agreement (SLA) with Scottish Government Rural Payments and Inspection Directorate (SGRPID).

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 Partner 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 2012 to 15 October 2013 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   The auditor reviewed projects funded by LEADER and visited two projects currently in progress in October 2013 to review compliance and observe the practices adopted for 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, but have been addressed and managed by the Lead Partner through the Secretariat support as detailed in Section 5 of the report.

- SR13 Failure to comply with new legislation, regulations or statutory responsibilities;

- SR16 Failure to have a robust internal control process and system which could lead to substantial fines imposed by the European Union regarding errors in the claims process;

- 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 LAG continues to deliver a structured approach for developing, appraising and approving applications for LEADER funding.

5.2 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.

5.3 The project applications and claims process was found to be robust as regard to completeness and compliance with guidance and also the LAG ensured that best practice is being observed.

5.4 The reconciliation between the Council's ledger and the claim for LAG administration costs has not been carried out due to a review of all files as instructed by the Scottish Government, the consequence of this is that no claims for reimbursement of Admin costs have been submitted since 1st October 2012.

5.5 There is a heavy reliance on paper files to record all evidence concerning projects. A document management system would be beneficial to improve overall effectiveness.

5.6 Correspondence between project officers and Applicant prior to application should be kept on file as evidence of negotiations between project applicants and project coordinators to ensure that projects submitted reflect best value.

6 RECOMMENDATIONS

Five recommendations were identified as a result of the audit. These were rated as 1 High, 1 medium and three low 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 Economic Development Manager, Lead Partner representative on the Argyll and the Islands LEADER LAG.

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 it if 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 the 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 Assistants; and
- 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 and SGRPID 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 and SGRPID 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

APPENDIX 1

DETAILED FINDINGS

1   Guidelines and Processes

1.1   There are documented procedures in place for the development, appraisal and approval of applications and also for the processing of claims for LEADER.

1.2   Details of all approved projects are recorded on an established database. This database is used to record all activity in relation to the LEADER project including all claims for payment made. This is supported by individual project files.

1.3   Guidelines for approved and potential projects are available on the Argyll and Islands LEADER website. Details of all approved projects are available on the website along with the agreed minutes of the LAG meetings. In addition there is a secure area for LAG members and this is used to provide the members with all the relevant information in relation to applications for LEADER funding.

2   Document Management

2.1   The secretariat function delivered by the Lead Partner records in hardcopy all applications, claims and correspondence regarding each project. Each project involves a substantial amount of paper which can be onerous as regards control measures and as a result could lead to errors occurring. The consequence of errors being found in any claim irrespective of the financial amount can lead to substantial fines from the European Union.

Recommendation 1

The purchase of Document Management system software should be considered and discussed with the Scottish Government/Audit Scotland. This is an issue that should be raised with the Scottish Government as measures are being put in place to develop appropriate systems and software for the delivery of the LEADER programme, 2014-2020.

2.2   The Council employs two LEADER Project Co-ordinators each with their own separate case load. Prior to each project submitting an application the Project Co-ordinators advise and discuss with each applicant the scope of the project as well as giving advice on achieving best value for money. These activities are not documented in the files, but are never the less important evidence of the LAG pursuing best value for money.

Recommendation 2

All documentation and correspondence with the applicant prior to project acceptance should be kept on file as proof of the LAG achieving best value for money.

3 Procedures

3.1 At present any changes by the applicant to any of the budget headings within the original application must have a change request form completed and agreed prior to the claim being submitted. Numerous projects have a high volume of change requests of a low value and consequently results in time consuming admin duties for the LEADER Grant Administration Assistants.

Recommendation 3

Guidance should be sought from Audit Scotland/SGRPID as to introducing new guidelines as to when a 'Change Request Form' is required e.g. only when the change is over say 10% of the relevant budget heading.

3.2 As regards the procurement process greater clarity is required as to the responsibilities of the Lead Partner and the project applicant. For example Audit Scotland has recommended that all failed tenders should be kept on file by the Lead Partner but Internal Audit is of the opinion that these should be kept by the project applicant.

Recommendation 4

Further reinforcement of the procurement process as regards responsibilities of the applicant by the Lead Partner should be carried out.

4 Quarterly Return to Scottish Government

4.1 The quarterly return to the Scottish Government is prepared by the European Support Officer. This return includes the claim for reimbursement of defrayed expenditure.

4.2 No reconciliation as yet has been carried between the Council's Ledger and the claim for the LAG Administration costs.
This is due to the Lead Partner being instructed by the Scottish Government to review all files in the current financial period with regard to new EU guidelines. Consequently no claim for LAG Administration costs has been made.

Recommendation 5

The reconciliation between the Oracle ledger and the claim for the LAG administration costs should be completed as soon as possible.

APPENDIX 2   ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	The secretariat function delivered by the Lead Partner records in hardcopy all applications, claims and correspondence regarding each project. Each project involves a substantial amount of paper which can be onerous as regards control measures and as a result could lead to errors occurring. The consequence of errors being found in any claim irrespective of the financial amount can lead to substantial fines from the European Union	Medium	The purchase of Document Management system software should be considered and discussed with the Scottish Government/Audit Scotland. This is timely as measures are being put in place currently to develop appropriate systems and software for the delivery of the LEADER programme, 2014-2020.	Economic Development Manager	16 December 2013

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
2	The Council employs two LEADER Project Co-ordinators each with their own separate case load. Prior to submission of each project application, the Project Co-ordinators advise and discuss with each applicant the scope of the project as well as giving advice on achieving best value for money. These activities are not documented in the files but are never the less important evidence of the LAG pursuing best value for money.	Low	All documentation and correspondence with the applicant prior to project acceptance should be kept on file as proof of the LAG achieving best value for money.	Economic Development Manager	16 December 2013
3	At present any changes by the applicant to any of the budget headings within the original application must have a change request form completed and agreed prior to the claim being submitted. Numerous projects have a high volume of change requests of a low value and consequently results in time consuming admin duties for the LEADER Grant Administration Assistants.	Low	Guidance should be sought from Audit Scotland/ SGRPID as to introducing new guidelines for when a 'Change Request Form' is required e.g. only when the change is over say 10% of the relevant budget heading.	Economic Development Manager	16 December 2013

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	As regards the procurement process greater clarity is required as to the responsibilities of the Lead Partner and the project applicant. For example Audit Scotland has recommended that all failed tenders should be kept on file by the Lead Partner but Internal Audit is of the opinion that these should be kept by the project applicant.	Low	Greater clarity should be sought as to the responsibilities of the Lead Partner and the project applicant for input to the new LEADER programme procedures for 2014-2020.	Economic Development Manager	16 December 2013
5	No reconciliation as yet has been carried out between the Council's Ledger and the claim for the LAG Administration costs. This is due to the Lead Partner being instructed by the Scottish Government to review all files in the current financial period with regard to new EU guidelines. Consequently no claim for LAG Administration costs has been made.	High	The reconciliation between the Oracle ledger and the claim for the LAG administration costs should be completed as soon as possible.	Economic Development Manager	31 October 2013