



Internal Audit Report

Development and Infrastructure

FLAG - Annual Certification

December 2013

1 INTRODUCTION

- 1.1 This report has been prepared as the result of an Internal Audit review of Fisheries Local Action Group (FLAG) funding as part of the 2013/14 Internal Audit Programme and covers the grant period 1st July 2012 to 30th June 2013.
- 1.2 Argyll & Bute and South Ayrshire Fisheries Local Action Group (FLAG) is a partnership established to oversee the delivery of the European Fisheries Fund (Axis 4).
- 1.3 The FLAG, which includes representatives from the public, community and private sectors, will allocate a sum of £400K to projects that seek to promote the sustainable development of communities that have been affected by the decline of the fishing industry.
- 1.4 Public, private and third sector organisations operating in fishing communities throughout Argyll & Bute and South Ayrshire are eligible to apply for funding.
- 1.5 FLAG members will oversee the delivery of the European Fisheries Fund (EFF) and will have responsibility for considering funding applications. Applications will be assessed against EFF eligibility criteria, the project's contribution towards the Local Fisheries Development Strategy and the level of community benefit that will be delivered.
- 1.6 Argyll & Bute and South Ayrshire Fisheries Local Action Group will support measures to promote economic diversification and an improved quality of life in areas affected by a decline in fishing activities with a particular focus on the following Axis 4 priorities:
 - Revitalising Communities;
 - Coastal Community Capacity;
 - New Markets and Products; and
 - Progressive Coastal Economy.
- 1.7 The FLAG will consider funding for projects that will help to deliver the objectives of the Local Fisheries Development Strategy:
 - To support and encourage renewable energy activities that benefit fisheries communities in terms of on-shore and off-shore employment and training opportunities.
 - To improve the accessibility of fisheries communities through the redevelopment of harbours, piers and slipways.

- To support the growth of a local and domestic markets exploiting the strong linkages with and adding value to seafood produce and food tourism and the seafaring cultural heritage of the area.
- To support the diversification of the fishing industry through increased collaboration coupled with value added opportunities for employment and training.
- To raise the visiting public's understanding of the region's fishing and aquaculture activities.
- To promote joint action to develop the recreational use of harbours across the FLAG area.

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 Annual Confirmation certificate as outlined in section 11 of the SLA.

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 as outlined in the SLA between Argyll and Bute Council and Marine Scotland;
- Claim process - to ensure the claim process is robust and compliant with guidance; and
- Review the responsibilities of the FLAG to ensure best practice is being observed.

2.2 At the time of the audit only five projects had been passed for approval and of these five none had submitted claims for reimbursement.

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 in order to meet the requirements of the SLA between Argyll and Bute Council and Marine Scotland; and
- 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 Five projects had been submitted to the FLAG at the time of audit and all had been passed as eligible under the EFF Axis 4 eligible measures.
- 5.2 The auditor found that there are systems in place as regards application and acceptance of projects to ensure that Argyll and Bute is adhering to the technical guidance.
- 5.3 No claims have been submitted and therefore verification of the claims process will be carried out in subsequent audit. Processes around verification of claims have yet to be documented.
- 5.4 General Administrative procedures have also yet to be scoped but Internal Audit would assume that tried and tested procedures that already exist around LEADER will also be applied to FLAG.
- 5.5 No record of scoring sheets for the projects could be found on file.
- 5.6 Adoption of a database to record all projects should be considered along the same lines as currently used for LEADER projects.

6 RECOMMENDATIONS

Four recommendations were identified as a result of the audit. These were rated as one high, two medium and one 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.

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 high, medium or low. 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 is meeting the guidelines as outlined in the SLA agreement document between Argyll and Bute Council and Marine Scotland.

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;

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 Marine Scotland 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 Marine Scotland 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 2 ACTION PLAN

| No. | FINDINGS | PRIORITY | RECOMMENDATION | RESPONSIBLE OFFICER | IMPLEMENTATION DATE |
|-----|--|----------|---|------------------------------|-----------------------|
| 1 | Procedures and controls as regard FLAG claims have yet to be documented, but Internal Audit is cognisant of the fact that no claims have yet been submitted. | High | Procedures are agreed and documented to address claims made for FLAG payments. | Economic Development Manager | End of February 2014. |
| 2 | Details of all approved projects are recorded manually. Consideration should be given to recording the details of these projects on a database to mirror best practice as currently adopted for LEADER projects. | Medium | That all FLAG projects should be recorded on a database to mirror the database currently in use for LEADER projects where applicable. | Economic Development Manager | End of February 2014. |
| 3 | No record of the scoring sheets for any of five projects could be found on file. | Medium | That scoring sheets should be filed in the project file when complete. | Economic Development Manager | End of February 2014. |