

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	DEVELOPMENT AND INFRASTRUCTURE SERVICES
AUDIT DESCRIPTION	VERIFICATION AUDIT
AUDIT TITLE	LEADER FUNDING - ANNUAL CERTIFICATION
AUDIT DATE	NOVEMBER 2014

2014/2015



1. BACKGROUND

1 INTRODUCTION

This report has been prepared as the result of an Internal Audit review of LEADER funding as part of the 2014/15 Internal Audit Programme.

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. 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 (SGRIPD).

LEADER Funding for 2007 – 2014 consists of an amount of £3.77m LEADER funds with additional Convergence funding of £5.12m. 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. The Council, as Lead Partner is responsible for employing staff, providing secretariat support and managing budgets. As Lead Partner the Council must ensure that an Annual Confirmation Certificate covering the year 16 October 2013 to 15 October 2014 is provided.

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.

3. RISKS CONSIDERED

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; and
- 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.

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with.
Substantial	Internal Control, Governance and the Management of Risk have displayed a mixture of little residual risk, but other elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Limited	Internal Control, Governance and the Management of Risk are displaying a general trend of unacceptable residual risk and weaknesses must be addressed within a reasonable timescale, with management allocating appropriate resource to the issues.
Very Limited	Internal Control, Governance and the Management of Risk are displaying key weaknesses and extensive residual risk above an acceptable level which must be addressed urgently, with management allocating appropriate resource to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

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.

5. FINDINGS

The following findings were generated by the audit:

- The Argyll and Islands LEADER Local Action Group (LAG) continues to develop a structured approach for developing, appraising and approving applications for LEADER funding.
- It was found that there are robust 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.
- The project applications and claims process was found to be compliant with relevant guidance however it was noted that the reconciliation between the Council's ledger and the claim for LAG administration costs has not been carried out.

6. CONCLUSION

This audit has provided a substantial level of assurance. There is one medium recommendation set out in Appendix 1 which will be reported to the Audit Committee. There are no low recommendations. Appendices 1 sets out the action management have agreed to take as a result of the recommendations, the persons responsible for the action and the target date for completion of the action. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the LEADER staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1

ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Reconciliation's		High/ Medium or Low		
The project applications and claims process was found to be compliant with relevant guidance however it was noted that the reconciliation between the Council's ledger and the claim for LAG administration costs has not been carried out.	Failure to carry out the reconciliation can lead to incorrect accounting.	Medium	The reconciliation with the Council's ledger will be completed by the European Support Officer.	Economic Development Manager. 31 December 2014.

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