Argyll and Bute Council

Internal Audit Report

October 2018

Final

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LEADER

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Audit Opinion: High

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	High	Medium	Low
Number of Findings	0	0	0

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Contents

Contact Details

Internal Auditor: *David Sullivan*

Telephone: *01546 604125*

e-mail: *david.sullivan@argyll-bute.gov.uk*

1. Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll & Bute Council's (the Council) system of internal control and governance in relation to LEADER.

2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.

3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and we would like to record our appreciation for the cooperation and assistance we received from all officers over the course of the audit.

Background

4. The overall aim of the Argyll and the Islands LEADER Local Development Strategy (the Strategy) is to "Support community-led economic growth and sustainable rural development within the Argyll and the Islands Local Action Group (LAG) area." The audit is included in the plan as part of LEADER programme compliance arrangements at the request of the Economic Development Service.

5. LEADER has a strong history in Argyll and the Islands and has contributed significantly in the past to enabling rural communities to find their own solutions to development issues. Innovation has been a central component of this success, with LEADER providing the opportunity for piloting new approaches to rural development. LEADER seeks, through partnership working, to support rural communities to respond to development challenges that they face.

6. To be eligible for support from the LEADER programme, a project must meet one or more of the themes and objectives as described in the strategy. LEADER has partner representatives from a wide range of public, private and community sector organisations. LAG members meet quarterly and have responsibility for assessing applications and awarding funding to successful applicants.

Scope

7. The scope of the audit was to ensure compliance with the requirements of the Argyll and the Islands LEADER 2014 – 2020 Service Level Agreement (SLA).

Audit Opinion

8. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls, governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion are provided in Appendix 2 to this report.

9. Our overall audit opinion for this audit is that we can take a **high** level of assurance. This means that internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with.

2. Objectives and Summary Assessment

10. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

	Control Objective	Assessment	Summary Conclusion
1	There is a SLA in place to between the Council, as the LEADER Accountable Body and the Scottish Government to support the delivery of the service.	High	There is a signed SLA between the Scottish Government, the Council and the LAG and appropriate checklists and procedural documents to ensure that all applications meet both the technical and financial requirements stipulated by the LEADER programme.
2	Current practice is compliant with the requirements of the SLA.	High	Of the 24 current LEADER projects five were sampled for testing against the SLA. All five fully complied with the assessed criteria.
3	Documentation is complete, accurate, stored appropriately and is compliant with the data retention policy.	High	Records are maintained on a shared drive and on the Scottish Government's Leader Actions in Rural Communities (LARCs) document management system. Access to these records is restricted to appropriate officers via logical access controls. Records relating to the current programme are required to be kept for three years following closure, six years from end of financial year during which final payment is made and 10 years where funding contributed to purchase of heritable property. The shared drive and LARCs have sufficient capacity to support this requirement.

11. Further details of our conclusions against each control objective can be found in Section 3 of this report.

3. Detailed Findings

There is a Service Level Agreement in place to between Argyll and Bute Council, as the LEADER Accountable Body and the Scottish Government to support the delivery of the service

12. There is a signed SLA between the Scottish Government, the Council and the LAG.

13. A review of the SLA found it to be comprehensive, covering relevant areas such as:

- roles and responsibilities of the Council and the Scottish Government
- performance measures
- counter fraud and compliance activities
- prosecution and litigation arrangements
- monitoring, reporting and management
- financial arrangements
- data retention
- gifts and hospitality.

14. A procedure manual entitled ""Argyll and the Islands LEADER Project Administrative System – Detail" clearly shows the various steps involved in ensuring that the grant process complies with the requirements of the SLA. Roles and responsibilities are clearly defined and there is appropriate duty segregation.

15. For each grant application a number of checklists are completed by the assessor and approved by either the supervisor, programme manager, chair or vice chair. This ensures all applications meet the technical and financial requirements stipulated by the LEADER programme.

16. All successful applicants are provided with procurement guidance which sets out the required procurement process prior to incurring project costs.

17. A review of procedures has recently been conducted with LEADER staff asked to input to that review process.

Current practice is compliant with the requirements of the Service Level Agreement

18. There are currently 24 live LEADER projects of which five were sampled to test compliance with the requirements of the LEADER SLA. In particular we ensured that

- technical checklists were completed and signed
- the project had been approved by the LAG
- a scoring worksheet has been completed
- a grant offer had been sent and signed by an appropriate council officer
- a signed acceptance letter had been received
- a post approval visit had been carried out and recorded
- a payment checklist had been completed prior to payment being made
- a copy of bank statement was provided confirming payment of expenditure prior to claims being paid
- quotes have been received where appropriate.

19. Tested confirmed all five projects complied with the requirements listed above.

20. LAG minutes confirmed they had awarded grant funding via a "Decision in Principle" to two of the five sampled projects. This means the award is subject to certain conditions being met. We confirmed the conditions were met and that there is no requirement for the LAG to be notified.

21. Testing confirmed the Economic Growth Manager has signed letters of award for projects greater than £100,000, however payment authorisation levels for this position is £100,000 or less. As the Economic Growth Manager is mandated by the LAG to act on their behalf to make the award and the award letter is a commitment to pay and not a disbursement of monies we considered this acceptable. The Economic Growth Manager has not signed off and disbursements in excess of the £100,000 limit.

22. 2018/19 LEADER grants awarded to date amount to £1,708,292 out of total available funds of £3,794,171. Whilst we recognise that only projects which meet the technical requirements can be approved there is a potential for a significant shortfall in grants awarded against available funds. This issue was discussed by the LEADER Accountable Bodies at a meeting on 4 October 2018 and decided that:

- The cut-off point for the cooperation budget (a minimum of 5% of Argyll and Bute's total LEADER budget allocation) should be used by 29 March 2019. Any unused funds should be returned to the national pot for redistribution.

- The cut-off point for other projects will be 30 June 2019. Any unused funds will be required to be returned to the national pot for redistribution.

Documentation is complete, accurate, stored appropriately and is compliant with the data retention policy

23. Records are maintained on a shared drive and on the LARCs document management system. Access to these records is restricted to appropriate officers via logical access controls.

24. Records relating to the current programme are required to be kept for three years following closure, six years from end of the financial year during which final payment is made and 10 years where funding contributed to the purchase of heritable property. The shared drive and LARCs have sufficient capacity to support this requirement.

25. The LARCs system is a Scottish Government system. The Scottish Government's IT security policy outlines the requirements for the use of LARCs and will allow councils to access to the system if they:

- have an Acceptable Use Policy, IT Security and Data Protection (DP) policy
- have Freedom of Information (Scotland) Act and DP subject access request processes in place.

The Council complies with these requirements.

Appendix 1 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.