

Argyll and Bute Council
Internal Audit Report
September 2019
FINAL

LEADER

Audit Opinion: High

	High	Medium	Low
Number of Findings	0	0	0

Contents

1. Executive Summary	3
Introduction	3
Background	3
Scope	3
Risks	3
Audit Opinion	4
2. Objectives and Summary Assessment	4
3. Detailed Findings	5
Appendix 1 – Audit Opinion	7

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1. Executive Summary

Introduction

1. As part of the 2019/20 internal audit plan, approved by the Audit & Scrutiny Committee in March 2019, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to the Argyll and the Islands LEADER programme.
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. The findings outlined in this report are only those which have come to our attention during the course of our normal audit work and are not necessarily all the issues which may exist. Appendix 1 to this report includes agreed actions to strengthen internal control however it is the responsibility of management to determine the extent of the internal control system appropriate to the Council.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance 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 Development and Economic Growth Service.
5. LEADER funding 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) as outlined in the Terms of Reference agreed with the Economic Growth Manager on 12th August 2019.

Risks

8. The risks considered throughout the audit were:
 - **Audit Risk 1:** Non-compliance with Argyll and the Islands LEADER 2014 – 2020 SLA

Audit Opinion

9. 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 is provided in Appendix 1 to this report.
10. 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. A sound system of control designed to achieve the system objectives is in place and being applied consistently.

2. Objectives and Summary Assessment

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

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	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.	Audit Risk 1	High	There is a signed SLA between the Scottish Government and Argyll and Bute Council as the LEADER Accountable Body, with appropriate checklists and procedural documents in place 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.	Audit Risk 1	High	Of the 34 current LEADER projects five were sampled for testing against the SLA. All five complied with the assessed criteria.
3	Documentation is complete, accurate, stored appropriately and is compliant with the data retention policy.	Audit Risk 1	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.

12. 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

13. There is a signed SLA between the Scottish Government and the Council.
14. 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.
15. 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.
16. 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.
17. All successful applicants are provided with procurement guidance which sets out the required procurement process prior to incurring project costs.
18. No formal review of procedures has taken place over the last 12 months though management make changes to procedures when required. It is also noted that the LEADER process has not changed in the previous 12 months meaning a procedure review is not deemed necessary.

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

19. There are currently 34 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
 - a scoring worksheet has been completed
 - the project had been approved by the LAG
 - 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
 - match funding has been confirmed as being in place
 - a payment checklist had been completed prior to payment being made.

20. Testing confirmed that all five projects complied with the requirements listed above.
21. There are no performance measures in the Council's Pyramid Performance System however as the LEADER programme will cease in 2020 no audit issue has been raised.

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

22. 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.
23. 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 ten years where funding contributed to the purchase of heritable property. The shared drive and LARCs have sufficient capacity to support this requirement.
24. 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.
25. 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 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.