

Argyll and Bute Council  
Internal Audit Report  
September 2020  
Final

**LEADER**

**Audit Opinion: High**

	High	Medium	Low	VFM
Number of Findings	0	0	1	0

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## 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 2020/21 internal audit plan, approved by the Audit & Scrutiny Committee in March 2020, we have undertaken an audit of Argyll and 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. 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. A review of Argyll and the Islands LEADER 2014 - 2020 within Development and Economic Growth Service has been planned as part of the 2020-2021 Internal Audit programme. From previous annual audits, this area has provided a substantial or high level of assurance and the audit is included in the plan as part of LEADER programme compliance arrangements at the request of the Economic Growth Service.
5. The overall aim of the Argyll and the Islands LEADER Local Development Strategy is to "Support community-led economic growth and sustainable rural development within the Argyll and the Islands LAG area."
6. 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.
7. The LEADER programme seeks, through close and positive partnership working, to support rural communities throughout the area to respond to some of the many development challenges that are still facing them.
8. 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 Argyll & the Islands Local Development Strategy.
9. Argyll and the Islands LEADER has partner representatives from a wide range of public, private and community sector organisations Local Action Group members meet quarterly and have responsibility for assessing applications and awarding funding to successful applicants.

## Scope

10. The scope of the audit is to review compliance with the requirements of the Argyll and the Islands LEADER 2014 – 2020 Service Level Agreement as outlined in the Terms of Reference agreed with the Economic Growth Manager on 21 August 2020.

## Risks

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

## Audit Opinion

12. 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 2 to this report.
13. Our overall audit opinion for this audit is that we can take a high level of assurance. 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.

## Recommendations

14. We have highlighted two low priority recommendations where we believe there is scope to strengthen the control and governance environment. These are summarised below:
- clarification has been sought from the SG regarding the implications for the Council if projects are not completed by 31 March 2021, however a response is still outstanding. This should be progressed as a matter of priority
15. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

## 2. Objectives and Summary Assessment

16. 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 between the Council, as the LEADER Accountable Body, and the Scottish Government to	Audit Risk 1	High	There is a signed SLA between the Scottish Government (SG) and the Council as the LEADER Accountable Body, with appropriate checklists and procedural documents in place to ensure all applications meet the requirements.

	support the delivery of the service.			
2	Current practice is compliant with the requirements of the SLA.	Audit Risk 1	Substantial	No issues were identified in relation to compliance with the SLA. The LEADER programme is scheduled to end on 31 March 2021 and although a discussion with SG officials has taken place, clarification remains outstanding as to any potential financial implications for the Council of projects not completed by that end date.
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 SG's Leader Actions in Rural Communities (LARCs) document management system. Appropriate access controls are in place and records are maintained in compliance with appropriate record retention requirements.

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

### 3. Detailed Findings

[There is a SLA in place to support the delivery of the service.](#)

18. There is a signed SLA between the Scottish Government and the Council which is 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.

19. 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.

20. 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.

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

22. The Scottish Government periodically carry out an audit of the Council's LEADER processes. The latest audit report showed that LEADER had been awarded a "green" status with no significant issues identified.
23. The LEADER programme is scheduled to end on 31 March 2021. The SG periodically carries out audits on the Council's LEADER processes and management has confirmed that experienced staff will still be available to assist with these audits after this date in order to mitigate the risk of audit issues remaining unresolved.

**Current practice is compliant with the requirements of the SLA**

24. There are currently 34 live LEADER projects, of which 12 have had final claims made and 22 have outstanding claims. No further projects will be considered for the Argyll and the Islands LEADER 2014 – 2020 programme. Of the 34 live projects, 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
    - match funding has been confirmed as being in place
    - claims have been checked and paid out where appropriate.
  25. Testing confirmed that all five projects complied with the requirements listed above.
  26. The Council has a risk register that details the ongoing status of each project including expected completion date and amounts of claims outstanding. The register is submitted to the Scottish Government usually on a monthly basis. For the 34 ongoing approved LEADER grants currently in progress, £918,467 of claims have been awarded to date with a further £1,436,743 claimable by these projects. 77% of this figure relates to five high value capital projects.
  27. The current deadline for completion of the LEADER programme is 31 March 2021 and consequently all projects are required to submit final claims to the Council by 28 February 2021. A review of the risk register noted that two high value projects have yet to submit updated timelines for their projects to be completed.
  28. The Council has sought clarification from the Scottish Government on the implications of projects not being completed, for example due to COVID, especially regarding:
    - the definition of when a project is deemed to be completed e.g. a completion certificate issued by building control
    - for projects not completed by the deadline (therefore not qualifying for LEADER funding) will the Council be reimbursed by the Scottish Government for monies already disbursed.
- The Council is still waiting on the Scottish Government's response.

**Action Plan 1**

29. The Scottish Government has given all LAGS until June 2020 to commit funding, after which all funding not committed should be returned to the Scottish Government for redistribution to Scottish LAGS. For Argyll and Bute Council this relates to £931,328 returned to the Scottish Government as at September 2021.

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

30. 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.
31. 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.
32. 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.
33. The Council complies with these requirements.

## Appendix 1 – Action Plan

	No	Finding	Risk	Agreed Action	Responsibility / Due Date
Low	1	<p><b>Clarification from Scottish Government</b></p> <p>Clarification is required from the Scottish Government regarding the implications for the Council if projects are not being completed by 31 March 2021 especially regarding:</p> <ul style="list-style-type: none"> <li>the definition of when a project is deemed to be completed e.g. a completion certificate issued by building control</li> <li>for projects not completed by the deadline (therefore not qualifying for LEADER funding) will the Council be reimbursed by the Scottish Government for monies already disbursed.</li> </ul>	The Council may incur financial loss.	<p>A meeting was held with the Scottish Government on 15 September. The new Head of the LEADER Team is to provide the Council with a written response to these issues for audit purposes.</p> <p>The relevant Executive Director and Head of Service have been briefed on this issue.</p>	<p>Economic Growth Manager</p> <p>31 December 2020</p>

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:



Grading	Definition
<b>High</b>	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
<b>Medium</b>	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
<b>Low</b>	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.
<b>VFM</b>	An observation which does not highlight an issue relating to internal controls but represents a possible opportunity for the council to achieve better value for money (VFM).

## Appendix 2 – Audit Opinion

Level of Assurance	Definition
<b>High</b>	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.
<b>Substantial</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	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.
<b>No Assurance</b>	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.