

Argyll and Bute Council  
Internal Audit Report  
August 2021  
Final

**LEADER**

**Audit Opinion: High**

	High	Medium	Low	VFM
<b>Number of Findings</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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## 1. Executive Summary

### Introduction

1. As part of the 2021/22 internal audit plan, approved by the Audit & Scrutiny Committee in March 2021, 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.
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 (LEADER) within Development and Economic Growth Service has been planned as part of the 2021-2022 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 Local Action Group (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. The Local Action Group are still consulted when projects request a major change requiring their approval.

### 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 01 August 2021.

## 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 Risk 2:** Procedures are not in place to ensure that all projects are completed and claims verified by 31 December 2021

## 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 1 to this report.
13. 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

14. 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 Service Level Agreement in place to between the Council and the Scottish Government to support the delivery of the service	Audit Risk 1	High	There is a signed Service Level Agreement (SLA) in place between the Scottish Government (SG) and the Council as LEADER Accountable Body, with appropriate checklists and procedural documents in place to ensure the delivery of the LEADER programme.
2	Current practice is compliant with the requirements of the SLA.	Audit Risk 1	High	All 6 projects sampled were found to be compliant with both Scottish Government and Council procedures. The Council has a LEADER risk register that details the ongoing status of each project. The risk register is submitted to the Scottish Government usually on a monthly basis or as requested.
3	Procedures are in place to ensure that all projects are completed and claims submitted	Audit Risk 2	High	The Scottish Government has prepared a list of actions that all Councils are required to complete by specific dates. The Council has procedures in place to ensure that all projects are completed

	and verified by deadline date of 31 December 2021			and claims submitted and verified by the 31 <sup>st</sup> December 2021. All actions detailed in the Scottish Government's list are expected to be completed by the appropriate date.
4	Documentation is complete, accurate, stored appropriately and is compliant with the data retention policy.	Audit Risk 1	High	Documentation is complete and stored appropriately with records maintained on a shared drive and on the Scottish Government's Leader Actions in Rural Communities (LARC) document management system. Appropriate access controls are in place and records are maintained in compliance with appropriate record retention requirements.

15. 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 the Council and the Scottish Government to support the delivery of the service](#)

16. Due to Covid-19 restrictions the Scottish Government has given an extension to 31<sup>st</sup> December 2021 for completion of all approved projects. A signed SLA (2014-2020) between the Scottish Government and the Council is in place which is comprehensive, covering relevant areas including:

- 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

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

18. 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.

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

20. The Scottish Government periodically carry out an audit of the Council's LEADER processes. The most recent audit report showed that the Argyll and the Islands LEADER Programme had been awarded a "green" indicating limited risk, processes and procedures are effective with no significant issues identified.

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

21. There are currently thirty three live LEADER projects, twenty two have had final claims processed and ten have outstanding claims. No further projects will be considered for the Argyll and the Islands LEADER programme. Of the thirty three live projects, six were sampled to test compliance with the requirements of the LEADER SLA. Testing confirmed that all six projects complied with the requirements of the SLA with the following confirmed:

- technical checklists completed and signed
- scoring worksheets completed
- projects had been approved by the LAG
- grant offers sent and signed by an appropriate council officer
- signed acceptance letters received
- claims checked and paid where appropriate.

22. The Council has a LEADER 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. A review of the LEADER risk register noted that one high value project has yet to submit updated timelines for their projects to be completed.

23. For the thirty three approved LEADER grants in progress, £2.6m of claims have been awarded to date with a further £180k outstanding by these projects, with eighty five percent of this figure relating to four high value capital projects. Management has confirmed that all outstanding claims are expected to be completed by the closure date.

#### Procedures are in place to ensure that all projects are completed and claims submitted and verified by deadline date of 31 December 2021

24. The Scottish Government has prepared a list of actions that all Councils should ensure are completed by the appropriate dates, including:

- ensuring all project irregularities are recorded and reported as resolved
- report actual project outputs and ensure all outstanding information has been completed, such as monitoring and evaluation
- complete all project documentation on LARCs
- a list of all Local Action Group grant-funded assets required for the running of the programme worth more than £2,500, when first purchased, to be sent to the LEADER delivery team
- the LEADER delivery team is informed of the name and position of a Council (Accountable Body) representative who is able to deal with any post-programme issues.

25. The Council is required to submit a closure declaration by 31<sup>st</sup> December 2021 stating that all the actions stipulated have been completed. Management have confirmed that all actions detailed within the list are currently being progressed and that all actions will be completed by the specified dates.

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

26. Documentation is complete with records 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.
27. 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.
28. 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.
29. The Council complies with these requirements.

## Appendix 1 – 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.