



Internal Audit Consultancy Report
The Environment Service
LEADER Assignment No.16-20
January 2017

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
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Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Consultancy work aims to support management in building in controls at the outset for the implementation of systems, processes and procedures and also provides specific assurance for particular projects or issues at the request of management. This approach is consistent with the PSIAS.

Background and Introduction

This consultancy assignment was carried out as part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016.

LEADER is a programme funded by the European Union aimed at increasing support to local, rural community and business networks to build knowledge and skills, and encourage innovation and cooperation in order to tackle local development objectives.

The Council has agreed to act as the ‘Lead Partner’ or ‘Accountable Body’ (AB) on the LEADER project for the rural Perth & Kinross (RPK) area. Officers from The Environment Service’s Investment team undertake this role. This involves working with, and for, a community-led Local Action Group (LAG) which awards funding to projects to support the delivery of a Local Development Strategy (LDS).

A Service Level Agreement (SLA) was entered into with the Scottish Government (SG) in August 2015. This defines a requirement for the AB to complete an annual Internal Audit review.

Scope and Limitations

As the Scottish Government carried out a monitoring visit on projects and administration in June 2016, this assignment has been amended from an audit to consultancy to avoid duplication of work carried out and to reflect the fact that there has been a delay in the programme implementation date. At the time of the assignment, only one project claim had been submitted.

The consultancy sought to work with officers to review progress of the LEADER project and recommendations identified within the previous Internal Audit review in March 2016 (Report 16/310 refers). This was in regards to the implementation of the business plan through which the LDS will be delivered. Additionally, audit reviewed the SLA, which was unavailable at the time of the last review, and guidance provided by the SG to ensure that there had been consideration of evidencing requirements within this.

Consultancy activity included meetings with relevant officers and review of documentation in relation to LEADER.

Project Update

The Service advises that the LAG and AB have received a higher level of Expressions of Interest and applications than anticipated within the 1st year of programme implementation. Between January and 22 December 2016, 38 applications have been assessed and 27 approved. Of these, 9 projects have commenced and 1 claim has been paid. The AB and LAG has recognised that this has caused capacity issues, and has amended LAG dates for 2017 to help address this. The SG visited the AB in June 2016 and reviewed administration set up and documentation relating to 2 of the projects, during which time it was noted that this was in order and well presented. Five recommendations were made as a result of this SG review. The AB advises that 3 of these have been undertaken and that work is progressing regarding the outstanding 2.

The management information system provided by the SG, through which all information will be recorded, recently became available for use. All applications are now recorded on the system, and it is anticipated that the claims module will be available within the first quarter of 2017. The AB has yet to receive guidance documents from the SG regarding cooperation activities and monitoring and evaluation of projects.

The LEADER co-ordinator terminated their employment with effect from December 2016. A new LEADER co-ordinator has been appointed and will commence in post at the beginning of January 2017.

Audit Comments

Internal Audit has worked with the relevant officers on behalf of the AB throughout 2016 and has highlighted areas where processes and LAG documents have not been completed as outlined within the original business plan. The AB is currently reviewing the Business Plan and the LDS and will be seeking to have these finalised and approved once all guidance has been received from the SG.

Internal Audit notes that minutes of the LAG reflect discussion regarding training needs, project assessment, progression of project objectives and budgets. In addition, the AB has advised that it is completing “inception” visits with projects and intends to formulate an appropriate monitoring and evaluation structure in 2017, following receipt of guidance from the SG. However, there are some requirements defined in the SLA which require further discussion and documentation.

Internal Audit has provided the incoming LEADER Co-ordinator with a log detailing consultancy discussions for reference and guidance. An action plan has been drafted to ensure that areas highlighted from the current and previous reviews are fully addressed in advance of the annual certification exercise, scheduled for September 2017.

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

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Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the PKLEADER AB staff during this assignment.

Feedback

Internal Audit welcomes feedback from management, in connection with this work or with the Internal Audit service in general.

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive Environment (Sustainability, Strategic & Entrepreneurial Development)

B Renton, Director (Environment)

T Flanagan, Interim Head of Economic Development

J Symon, Head of Finance

S Merone, Investment Manager

F McGowan, Investment Team Leader

S Rice-Jones, LEADER Coordinator

L Simpson, Head of Legal and Governance Services

K McNamara, Head of Strategic Commissioning and Organisational Development

G Taylor, Head of Democratic Services

P Dickson, Complaints and Governance Officer

External Audit

Internal Audit Report

Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 17 January 2017

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Business Plan Update	High
2	LAG Documentation	High

Appendix 2: Action Plan

Action Point 1. Business Plan Update

The Service is aware that the LEADER Business Plan requires review and update to reflect current and proposed processes. This should include documentation of procedures to support separation of duties in claims processing and scrutiny of capital projects in line with requirements defined within the SLA.

The AB is awaiting further guidance from the SG prior to finalising the Business Plan.

Changes to the Business Plan should be approved by the LAG and SG.

Management Action Plan

The AB is currently reviewing the Business Plan and the LDS. Once further guidance has been received these will be finalised and presented for approval by the LAG and the SG.

Importance:	High
Responsible Officer:	S Rice-Jones, LEADER Co-ordinator
Lead Service:	The Environment Service
Date for Completion (Month / Year):	August 2017
Required Evidence of Completion:	<p>a) Updated Business Plan. This should reflect procedures regarding separation of duties and scrutiny of capital projects.</p> <p>b) Minutes of LAG meeting where Business Plan was approved</p> <p>c) Confirmation of approval of revised business plan from SG</p>

Auditor's Comments

Satisfactory

Action Point 2. LAG Documentation

There are forms relating to the LAG which are still to be completed in line with the Business Plan and SLA.

Management Action Plan

The AB will ensure all documentation relating to the LAG is completed as required. The AB will liaise with the SG where forms may differ from those indicated within the Business Plan.

Importance:	High
Responsible Officer:	S Rice-Jones, LEADER Co-ordinator
Lead Service:	The Environment Service
Date for Completion (Month / Year):	March 2017
Required Evidence of Completion:	a) Confirmation that all LAG members have signed a Memo of Understanding and nominated representative forms b) A completed Register of Interest

Auditor's Comments

Satisfactory