

Internal Audit Report



Internal Audit Report
Housing & Environment
LEADER
18-19
November 2018

Final Report (Report No. 19/30)

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
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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)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2018/19, which was presented to the Audit Committee on 27 June 2018. 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. Internal Audit have carried out three previous assignments in respect of LEADER ([Report 16/310](#), [Report 17/57](#) and [Report 17/386](#) refers) in which we have undertaken audit and consultancy work.

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 Housing & Environment’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).

The LEADER LAG is an unincorporated body whose membership includes representatives from 21 public and voluntary bodies in the RPK area including the Council. It has accepted approximately £3.8 million of funding from Europe and the Scottish Government for the period to December 2020.

As lead partner the Council has signed a Service Level Agreement (SLA) with the Scottish Government in August 2015. The purpose of the agreement is to define the obligations, duties and accountabilities of both parties in regard to the Scotland Rural Development Programme. Included within Annex A of the agreement is the undertaking that the Council will provide internal audit coverage of the functions undertaken on behalf of the Scottish Government, and will submit as part of an annual report, confirmation there has been compliance with applicable Regulations.

The agreement further states that if the Scottish Government faces disallowance of the EU contribution as a result of the Council failing to observe any requirements of the agreement, that the Council will recompense it.

The Scottish Government has issued guidance on the internal audit work required. It states that internal audit should review the systems in place to deliver LEADER as well as the financial processes to ensure they meet Regulatory requirements. It should assess compliance with the SLA and conduct a review of a selection of LEADER projects. In accordance with this requirement an Internal audit was carried out in 2017 in respect of the period to 15 October 2017 ([Report 17/386](#) refers).

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This report is the result of our audit work for 2017-18 and covers the period 16 October 2017 to 15 October 2018. At the time of testing the total number of applications was 77 of which 37 had been approved by the LAG. This audit includes a review of the following listed projects that are being supported by the 2014-2020 programme and 4 projects were reviewed. The projects were:-

No	Organisation	Project Name	Award (£)
1	Atholl Baptist Centre Ltd	Atholl Centre Conference Facilities	30,000
2	Perth & Kinross Countryside Trust	Cateran's Common Wealth	41,761
3	Crieff Food Company	The Opening of the Crieff Food Company	30,000
4	Comrie Development Trust	Cuttybraggan Camp Development Project	43,396

In addition, two projects which were reviewed at the previous audit and are now complete were subject to a further review.

Scope and Limitations

The Service Level Agreement refers to the requirement to comply with all EU regulatory requirements but in particular 1306/2013, 907/2014, 259/2008, 1305/2013 and 1303/2013. The Scottish Government has issued guidance which is based on the Regulations. Internal audit have limited their assurance to compliance with that guidance and the service level agreement.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure Regulatory requirements are met by reviewing the systems in place to deliver LEADER as well as the financial processes

Audit Comments: Testing confirmed that there are systems in place to deliver LEADER.

There is evidence that the LAG is leading on the delivery of the LDS in supporting the priority projects which will deliver the key elements of the strategy. As set out in the business plan the LAG is monitoring the programme, which was confirmed when reviewing projects. Testing confirmed that there are regular LAG meetings with project assessments being carried out and decisions being minuted. Minutes confirm that meetings are quorate and there is appropriate membership from both private and public bodies.

Financial returns are sent to the Scottish Government requesting reimbursement

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for administrative and animation costs. Review confirmed that these payments were subject to internal supervisory checks with adequate segregation of duties and supporting documentation. The payments were appropriately recorded in the Council's financial records and a reconciliation has been carried out between the Council's general ledger and the claims. The claims had not been submitted in accordance with the timetable outlined in the SLA and at the time of the audit, the claims for the period from 1 October 2017 had only recently been submitted for payment. Claims for the period 1 October to 31 May 2018 were subsequently received from the Scottish Government.

Although payments had been issued to applicants, there have been delays in submitting some of the claims to the Scottish Government due to functionality issues with the Local Actions Rural Communities System (LARCS). The service advises that these will be submitted over the next six months. There is therefore scope to review procedures to ensure that claims are uploaded on to LARCS timeously so that drawdowns from Scottish Government for paid grants can be processed in order that the Council is repaid the money it has disbursed.

Strength of Internal Controls:

Moderate

Control Objective: Assess compliance with the SLA and conduct a review of a selection of LEADER projects

Audit Comments: The Business Plan has been updated and these changes have been approved by the Scottish Government. The Business plan will continue to be updated and refreshed to reflect current processes. A current register of interests of LAG members is maintained, a data sharing agreement is in place with the Scottish Government, as is a user access control policy. It has been recognised that LEADER will follow any changes to Council processes as a result of GDPR requirements.

A review of 4 Leader projects was undertaken which confirmed that appropriate records have been maintained. This included completed signed application forms for all sampled projects in accordance with the guidance. LAG members review applications and complete project assessments. There was evidence that projects were appropriately discussed at LAG meetings including updates on budgets and projects and decisions being made by the majority of the quorate board of the LAG. LAG meetings are held on a regular basis.

There is evidence of financial scrutiny of project claims in respect of expenditure eligibility, match funding and supporting documentation.

Of the 6 projects that were subject to review in last year's audit, 5 are now complete 2 of which claims have been submitted and received from the Scottish Government and the remaining 3 claims are awaiting advice from the Scottish Government on how best to upload to LARCS.

Audit undertook a review of 2 of these completed files to provide assurance that appropriate processes are being followed prior to the claim being submitted.

There is scope to streamline processes for managing records relating to individual projects to ensure that all information is readily accessible however this will take

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time due to ongoing backcapture for early projects and limited permissions available to the LEADER Team.	
Strength of Internal Controls:	Moderately Strong

Management Action and Follow-Up

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

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 PK LEADER staff during this audit.

Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive

B Renton, Executive Director (Housing & Environment)

K McNamara, Depute Director (Housing & Environment)

D Littlejohn, Head of Planning and Development

S Mackenzie, Head of Finance

S Merone, Investment Manager

F McGowan, Investment Team Leader

S Rice-Jones, LEADER Co-ordinator

L Simpson, Head of Legal and Governance Services

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External Audit

Authorisation

The auditor for this assignment was M Morrison. The supervising auditor was J Clark

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 12 November 2018

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Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Submission of claims	High
2	Administration and Animation claims	Medium
3	Record Management	Medium

Appendix 2: Action Plan

Action Point 1. Submission of claims

There have been delays in the submission of claims due to the level of applications and the ongoing functionality issues with LARCS. Drawdowns from the Scottish Government for paid grants should be processed timeously in order that the Council is repaid the money it has paid out to projects.

Management Action Plan

The Service is working as a matter of priority to process drawdowns from the Scottish Government and expect to have completed processing the backlog of claims by April 2019.

Risk/Importance:	High
Responsible Officer:	S Rice-Jones, LEADER Co-ordinator
Lead Service:	Housing & Environment
Date for Completion (Month / Year):	April 2019
Required Evidence of Completion:	Drawdowns submitted

Auditor's Comments

Satisfactory

Action Point 2. Administration and Animation claims

The administration and animation claims had not been submitted in accordance with the timetable outlined in the SLA. The claims for the period from 1 October 2017 had only recently been submitted for re-imbursement. Claims for the period 1 October to 31 May 2018 were subsequently received from the Scottish Government.

Administration claims should be made in line with the SLA deadlines which were quarterly. The Service has chosen to drawdown monthly now. There is benefit therefore in ensuring measures are put in place to meet these deadlines. This would also maximise cashflow for the Council.

Management Action Plan

The Service will ensure measures are put in place to meet SLA deadlines. Procedures will be updated to reflect these changes.

Risk/Importance:	Medium
Responsible Officer:	S Merone, Investment Manager
Lead Service:	Housing & Environment
Date for Completion (Month / Year):	Completed
Required Evidence of Completion:	Copy of updated procedures

Auditor's Comments

Satisfactory

Action Point 3. Record Management

There is scope to review the way in which records are held to support progress with each of the projects. According to guidance all information should be held on LARCs, however this has not been possible given the level of applications that have been received and the ongoing difficulties experienced uploading information on to LARCs.

Management Action Plan

The Service has advised that it will ensure that all available information is centrally held and uploaded to LARCs where possible on an ongoing basis.

Risk/Importance:	Medium
Responsible Officer:	S Rice-Jones, LEADER Co-ordinator
Lead Service:	Housing & Environment
Date for Completion (Month / Year):	April 2019
Required Evidence of Completion:	Status update on projects uploaded to LARCS

Auditor's Comments

Satisfactory