

Internal Audit Report



Internal Audit Report
Housing & Environment
LEADER
Assignment No 19-05
October 2019

Final Report

(Report No. 20/39)

Legal and Governance
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)

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 2019/20, which was approved by the Audit Committee on 26 June 2019. 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 four previous assignments in respect of LEADER ([Report 16/310](#), [Report 17/57](#) and [Report 17/386](#) and [Report 19/30](#) 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 £4 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. This audit has been carried out in accordance with guidance.

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This report is the result of our audit work for the 2018/19 LEADER year covering the period 16 October 2018 to 15 October 2019. At the time of testing the total number of applications was 100 of which 92 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 four projects were reviewed. The projects were:-

No	Organisation	Project Name	Award (£)
1	Perth Autism Support SCIO [Scottish Charitable Incorporated Organisation]	Rural Perthshire Autism Outreach Services	142,312
2	Enterprising Eastern Perthshire Ltd (Growbiz)	Enterprising Rural Perthshire	320,419
3	Hilton Estates	Blue Skies	74,000
4	The Tiny Tea Factory	Tiny Tea Factory	25,561

In addition, one project which was reviewed at the previous audit and is now complete was subject to a further review

No	Organisation	Project Name	Award (£)
1	Perth & Kinross Countryside Trust	Cateran's Common Wealth	41,761

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.

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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 for administrative and animation costs. Testing confirmed that these payments were subject to internal supervisory checks with separation 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 claim to the Scottish Government through the Scottish Government Local Actions in Rural Communities IT system (LARCs) for reimbursement of administration and animation costs, known as a drawdown, has been submitted monthly, up to and including September 2019, as requested by the Scottish Government, which is more frequently than the quarterly submission in accordance with the timetable outlined in the SLA.

The LEADER team monitors amounts: paid to projects; submitted for reimbursement by the Scottish Government, also known as a drawdown, through LARCs; and subsequently received from the Scottish Government. The SLA between the Council and the Scottish Government states that the Scottish Government will pay 90% of claims within three months.

As at 15 October 2019, the accumulated amount paid out for administrative and animation costs for the programme was £505,289. The Scottish Government has repaid £416,194 worth of drawdowns.

As at 15 October 2019, the accumulated amount paid out to applicants for their projects is £1,831,736. There is evidence from testing that when each payment is made to an applicant, once evidence from the Council's systems has been obtained, the LEADER team submits a drawdown timeously to the Scottish Government through LARCs. The Scottish Government has paid £1,233,778 worth of drawdowns. It is expected that outstanding drawdowns will be received, subject to Scottish Government's standard financial scrutiny.

The LEADER Co-ordinator pursues payment of drawdowns via regular communication with the Scottish Government LEADER Delivery Team.

Strength of Internal Controls:

Strong

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Control Objective: Assess compliance with the SLA and conduct a review of a selection of LEADER projects	
<p>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.</p> <p>A review of four LEADER projects was undertaken which confirmed that appropriate records have been maintained. The LEADER team review applications and complete project assessments. A decision on the approval of a project is made by each LAG member submitting his/her decision by e-mail to the LEADER team. If a majority, in line with the Business Plan stipulations, approve, it is normally ratified at the next meeting of the LAG. Meetings are held in line with the frequency set out in the Business Plan ('on a quarterly basis as a maximum'). However, the decision on approval of a project can be taken at a meeting of a LAG, rather than just be ratified. Updates on budgets are also discussed at meetings of the LAG.</p> <p>There is evidence of financial scrutiny of project claims in respect of expenditure eligibility, match funding and supporting documentation.</p> <p>The four projects that were subject to review in last year's audit are all now complete. Claims have been paid to the applicants and the drawdowns submitted to the Scottish Government.</p> <p>Audit undertook a review of one of these completed files to ensure that appropriate processes were followed prior the claim being submitted.</p> <p>Testing showed documentation required to support items on the application form is on LARCs as required by the Scottish Government guidance. The LEADER team supply any additional information, required for clarification when asked or to complete a project for final claims drawdown. Audit has been informed that the LEADER team will continue to add to the documentation to end of 2020 to ensure all documentation required by the Scottish Government or to comply with additional EU regulations is on LARCs.</p>	
Strength of Internal Controls:	Strong

Management Action and Follow-Up

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

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.

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Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the RPK LEADER staff during this audit.

Feedback

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

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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 & Development

J McCrone, Economic Development Manager – Place Development

S Rice-Jones, LEADER Coordinator

S Mackenzie, Head of Finance

L Simpson, Head of Legal & Governance Services

External Audit

Authorisation

The auditor for this assignment was M Stewart. The supervising auditor was J Clark.
This report is authorised for issue

Jacqueline Clark

Chief Internal Auditor

Date: 30 October 2019