5(ii)(a)
17/386

Internal Audit Report
The Environment Service
LEADER Assignment No A17-08
November 2017

Final Report

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
PH1 5PH

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 2017/18, which was presented to the Audit Committee on 27th September 2017.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 two previous assignments in respect of LEADER (Report 17/57 and 16/310 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 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).

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

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 report is the result of our audit work for 2016-17 and covers the period 16 October 2016 to 15 October 2017. At the time of testing there were 51 projects being

2

supported by the 2014-2020 programme and 6 projects were reviewed. The projects were:-

No	Organisation	Project Name	Award (£)
1	Highland Safaris	Loch Tay Safari's	74,000
2	St Fillans Community Trust	Loch Earn Railway Path	60,000
3	St Madoes & Kinfauns Parish Church	Madoch Centre	138,700
4	RSPB	Loch Leven All Access Underpass Design Phase	8,775
5	The Birks Cinema Trust	The Birks Cinema Trust - Our First Community Programme	30,750
6	Strathearn Cider Company	Cider Shed, Equipment & Brand Development	32,500

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. LAG minutes are being displayed on the LEADER website.

Financial returns are sent to the Scottish Government requesting reimbursement for administrative and animation costs. Review of 4 returns was carried out and no discrepancies identified. Testing 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 carried out between the Council's general ledger and the claims. The claims were not aligned to quarters and were not submitted within the 20 days as outlined in the SLA.

At the time of the audit although payments had been issued to applicants, no claims had been submitted to the Scottish Government. The service advises that these will be submitted shortly.

Strength of Internal Controls:	Moderately Strong

Control Objective: Assess compliance with the SLA and conduct a review of a selection of LEADER projects
Audit Comments: The Service has reviewed and updated the Business Plan to reflect current processes. These 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. 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. A review of 6 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 and decisions being made by the majority of the quorate board of the LAG. LEADER staff use Scottish Government Technical Checklists to ensure that all relevant information is documented and processes adhered to. There is evidence of financial scrutiny of project claims in respect of expenditure eligibility, match funding and supporting documentation. There is scope to streamline processes for managing records relating to individual projects to ensure that all information is readily accessible.

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:

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

SMackenzie, 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

K McNamara, Head of Strategic Commissioning and Organisational Development

G Taylor, Head of Democratic Services

External Audit

Authorisation

The auditors for this assignment were J O'Connor and M Morrison. The supervising auditor was J Clark

This report is authorised for issue:

_____

Jacqueline Clark
Chief Internal Auditor
Date: 6 November 2017

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Business Plan Change Control Log	Medium
2	Record Management	Medium

Appendix 2: Action Plan

Action Point 1.   Business Plan Change Control Log

The Service has recently updated the Business Plan and it has been presented to the LAG for approval.   There is benefit in recording any further changes to the Business Plan on a Change Control Log. The Business Plan could then be updated on an annual basis.

Management Action Plan

Service will prepare a Change Control Log and will update it to reflect any changes in processes.

Risk/Importance:	Medium
Responsible Officer:	S Rice-Jones, LEADER Co-ordinator
Lead Service:	The Environment Service
Date for Completion (Month / Year):	March 2018
Required Evidence of Completion:	Copy of updated Change Control Log

Auditor's Comments

Satisfactory

Action Point 2.   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 difficulties experienced uploading information on to LARCs.

Management Action Plan

Service has advised that once the team is full resourced, it will ensure that all information is centrally held and uploaded to LARCS where possible.

Risk/Importance:	Medium
Responsible Officer:	S Rice-Jones, LEADER Co-ordinator
Lead Service:	The Environment Service
Date for Completion (Month / Year):	March 2018
Required Evidence of Completion:	Confirmation that all information is uploaded on to LARCS

Auditor's Comments

Satisfactory