



Internal Audit Report
The Environment Service
LEADER
Assignment No.15-06
March 2016

Final Report

Finance Division
Corporate and Democratic Services
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

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 assignment forms part of the Internal Audit plan for 2015/16, as approved by Audit Committee on 1st April 2015.

LEADER is a community-led funding programme 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. It is funded by the Scottish Government (SG) and the European Union, as part of the Scottish Rural Development Programme, with other contributions from local partners and organisations. Grants are awarded by Local Action Groups (LAG) to projects that support delivery of a Local Development Strategy (LDS).

A shadow Perth & Kinross Rural LEADER LAG was set up in 2014 to prepare the LDS and Business Plan. The final versions of these were delivered to the SG in September 2014, setting out the objectives of the programme, and the mechanisms and procedures through which the LAG will deliver these, including formation of LAG sub-groups.

The Council has agreed to act as the ‘Lead Partner’ or ‘accountable body’ on the LEADER project, whereby it has entered into a Service Level Agreement with SG on behalf of the LAG for legal, administrative and financial matters. As the Programme’s banker, the Council will use its existing financial systems to receive funds from SG and match funding from individual partners for the administration of the projects and to pay out grants and management costs as agreed by the LAG. The programme runs from January 2016 to December 2020 and the Rural Perth and Kinross LAG has been awarded £3.8 million of funding.

To support the LEADER programme operations; the implementation of the LDS and to comply with SG requirements, the Council will employ 3 full-time staff who will work for and report to the LAG, with line management through The Environment Service’s Planning and Development Division.

Scope and Limitations

The audit included interviews with staff from the LEADER project section of the Investment Team, within the Environment Service, and a review of documentation relating to the LEADER programme.

Control Objectives and Opinions

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This section describes the purpose of the review 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. Responsibility for the maintenance of adequate and effective internal controls rests with management.

Control Objective: To ensure that adequate arrangements are in place in line with LEADER requirements.

Auditor's Comments:

The Perth & Kinross Rural LEADER LAG was formally established in December 2014 and has been evolving ever since to ensure appropriate representation from public, private and civil society and socio-economic sectors in line with requirements. Local Action Sub-Groups have been established to progress outcomes specified in the LDS and in readiness for assessing applications. The Council signed a Service Level Agreement (SLA) with the SG in July 2015. There is still work to be undertaken to fully formalise the arrangements of the LAG, its membership and the SLA between the Council and the LAG. These matters will be addressed at the next LAG meeting in April 2016.

Recruitment for the PKC Lead Partner team is now complete. The Programme Co-ordinator took up post in October 2015, the Project Officer in November 2015, with the remaining Project Administrator joining the team at the end of March 2016. All costs for these posts are re-claimed from the SG.

The LAG and the PKC Lead Partner team have documented procedures, however these require to be updated to reflect revisions to process and timescales with formal approval by the LAG.

LEADER has been actively publicised locally through a series of events and social media channels which are defined, and reviewed, in a documented marketing plan agreed by the LAG. A launch event was held in January 2016 and 55 expressions of interest, the first step in the application process, have been received to date. In addition to the marketing activities, the PKC Lead Partner team have been meeting with project applicants to develop ideas and facilitate understanding of application requirements.

The LEADER project was anticipated to run from 2014-2020 with applications being assessed and grants awarded from January 2015. Delays in the SG implementing an online software application, designed to manage LEADER programmes and process applications, has led to postponement of decision making on project awards. A SG LEADER conference was held in March 2016 where the SG advised that the online software application, Local Actions in Rural Communities system (LARCs), is now due to be delivered in July 2016 at the earliest.

The Perth & Kinross Rural LAG has taken the decision, in agreement with the SG, to start approving projects submitted via paper-based applications in April 2016. The PKC Lead Partner team are continuing to liaise with first step applicants and assist in the completion of paper application forms to attain this objective. The SG are yet to confirm whether they will accept paper-based claims upon projects reaching key milestones, where funding increments are to be released, if this is in

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advance of LARCs implementation. The Project Co-ordinator will liaise with the SG to ensure that this point is clarified and appropriate guidance is given to projects, upon approval, regarding timescales for funding being released.

Further guidance was provided by the SG at the LEADER conference in regards to Monitoring and Evaluation of funded projects. The Programme Co-ordinator, in consultation with the LAG, should work to develop this into processes/guidance documents so that clarity is provided from the outset as to how outcomes are being measured and evidenced.

Internal Audit have provided consultation over governance and verification requirements and will further liaise with the Lead Partner team within PKC throughout 2016.

Strength of Internal Controls:	Moderately Strong
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Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the LEADER staff and the Investment Team within the Environment Service.

Feedback

Internal Audit welcomes feedback from management, in connection with this review 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 (The Environment Service)

D Littlejohn, Head of Planning and Development

J Symon, Head of Finance

S Merone, Investment Manager

F McGowan, Investment Team Leader

S MacDonald, Rural Perth & Kinross Programme Co-ordinator

K McNamara, Head of Strategic Commissioning & Development

G. Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

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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 of Issue: 23 March 2016