Internal Audit Report
Communities
21-10 - LEADER
November 2021

Final Report
(Report No. 22/29)

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
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21-10 LEADER

Contents by Section

1.   Introduction

1.1   The audit of LEADER was undertaken as part of the Internal Audit Plan for 2021/22, which was approved by the Audit Committee on 30 June 2021.

1.2   The indicative scope was to review regulatory compliance for the LEADER projects.

2.   Audit Background Information

2.1   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 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).

2.2   Perth & Kinross Council (PKC) have agreed to act as the 'Lead Partner' or 'accountable body' on the LEADER project, whereby they have entered into a Service Level Agreement with the Scottish Government on behalf of the LAG. 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.

2.3   Internal Audit have carried out six previous assignments in respect of LEADER in which we have undertaken consultancy and audit work (Committee reports 16/310 and 17/57 consultancy and 17/386, 19/30, 20/39 and 20-237 refers).

2.4   This report is the result of our audit work covering the LEADER year ended 15 October 2021.

3.   Scope and Limitations

3.1   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.

4.   Assessment of the Control Environment

4.1   The table below contains a summary of the findings against each control objective and Internal Audit's assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Further details, including any improvement actions, are set out in the Management Action Plan.

No.	Control Objective	Action Rating					Control Objective Assessment
		5	4	3	2	1	
1	To ensure Regulatory requirements are met by reviewing the systems in place to deliver LEADER as well as the financial processes	No actions					Substantial
2	Assess compliance with the SLA and conduct a review of a selection of LEADER projects.	No actions					Substantial

4.2   The auditor has assessed that substantial assurance can be placed on controls overall in relation to LEADER from the audit. Meaning:
A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

4.3   A summary of the key findings are provided in section 5, please note however, the following areas of good practice which have been highlighted during the audit:

4.4   The LEADER team have a two-person independent review process, using a checklist, to ensure all documents required are filed on the Scottish Government IT system, Local Actions in Rural Communities system (LARCs). Any omissions are corrected. The completion of each stage for a project is recorded on a control spreadsheet. As at 15 October, 34 of the 70 projects have been through this double review. An additional 21 projects have been subject to the first-person review, however the second stage has not yet been concluded.

4.5 Subsequently, a third LEADER team officer will print all documentation from LARCs for the project, which will be given to a representative of the project to retain, thus giving the project all documentation for it filed on LARCs. This is recorded on a control spreadsheet. As at 15 October, documentation for six projects has been printed. It should be noted that this officer only took up this role on 1 October.

4.6 There is segregation of duties over the submission of a claim form for drawdown from the Scottish Government. It is compiled by a LEADER team Finance Claims & Admin Officer, checked by a PKC Communities Finance Officer, authorised by the Accountable Body (PKC)'s representative, PKC Place Manager, and certified on behalf of the Accountable Body by the PKC Head of Finance.

4.7 The LEADER team monitors drawdowns claimed and the amounts received. As at 11/11/21, claims submitted from September to be paid amount to £118.5k. It is expected that these amounts will be received imminently.

5. Summary of Findings

5.1 Below is a summary of key findings. There are no actions arising from this audit.

5.2 The systems in place to deliver LEADER, as well as the financial processes, were reviewed. There has been no change in systems from last year. There is no evidence that regulatory requirements are not being met.

5.3 Compliance with the Service Level Agreement was reviewed. There is no change in systems from last year. There has been no change to the SLA since 2015. There is no evidence that the SLA was not complied with.

5.4 Areas of good practice were found during the audit. These are documented in section 4 above.

6. Conclusion

6.1 The Internal Audit review is able to place substantial assurance on the overall control environment for LEADER.

7. Acknowledgements

7.1 Internal Audit would like to thank the RPK LEADER Co-Ordinator for who was involved in this audit.

8. Authorisation

8.1 The auditor for this assignment was M Stewart. The supervising auditor was J Clark.

This report is authorised for issue:

9. Distribution

9.1   This report has been distributed to:
T Glen, Chief Executive
B Renton, Executive Director (Communities)
D Littlejohn, Head of Planning & Development
J McCrone, City Development Manager
S Rice-Jones, RPK LEADER Coordinator
K Donaldson, Chief Operating Officer
S Mackenzie, Head of Finance
L Simpson, Head of Legal & Governance Services
External Audit

10. Assessment Definitions

10.1 The following table contains the definitions of the control objective assessment.

Control Objective Assessment	
Level of assurance	**Definition**
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

10.2 The following table contains the definitions applied by Internal Audit in rating audit findings/actions.

Risk Rating for Individual Findings		
Rating	**Rating description**	**Definition**
5	Critical	Significant observations / major concerns which require immediate action. Management will need to add these to the appropriate Service risk register *Issue represents a control weakness which could cause, or is causing, severe disruption of the process or severe adverse effect on the ability to achieve process objectives*
4	High	Significant observations regarding the absence / failure of key controls requiring urgent action. Management should consider adding these to the appropriate Service / divisional risk register *Issue represents a control weakness which could have, or is having, major adverse effect on the ability to achieve process objectives*
3	Medium	Observations regarding the effectiveness of key controls requiring reasonably urgent action. Management should consider these when updating any divisional / team risk registers *Issue represents a control weakness which could have, or is having, significant adverse effect on the ability to achieve process objectives*

Risk Rating for Individual Findings		
Rating	Rating description	Definition
2	Low	Minor observations regarding the adequacy of controls which require action to improve the efficiency, effectiveness, or economy of operations or which otherwise require to be brought to the attention of Senior Management *Issue represents a minor control weakness with minimal but reportable impact on the ability to achieve process objectives*
1	Trivial / Minor	Very minor observations which will be raised during the audit and may not be included within the final report *Issue represents a very minor control weakness with negligible impact on the ability to achieve process objectives. The issue will be raised during the audit and may not be included within the final report.*