

REPORT TO: Audit and Governance Committee

MEETING DATE: 19 November 2013

BY: Depute Chief Executive – Resources & People Services

SUBJECT: Internal Audit Report – Tyne Esk LEADER Programme

1 PURPOSE

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on the Tyne Esk LEADER Programme.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for the Tyne Esk LEADER Programme.

3 BACKGROUND

- 3.1 A review of the Tyne Esk LEADER Programme was undertaken as part of the audit plan for 2013/14.
- 3.2 The Tyne Esk LEADER Programme is part of the Scottish Rural Development Programme (SRDP) aimed at promoting economic and community development within rural areas in East Lothian and Midlothian.
- 3.3 The objective of the audit was to establish if assurance could be placed on the adequacy and effectiveness of the internal controls in place for administering the Tyne Esk LEADER Programme.
- 3.4 We note that during 2012/13 Audit Scotland carried out a review of LEADER projects throughout Scotland. The findings from the review identified significant concerns in a number of areas including the quality of financial appraisal and eligibility checking by Local Action Groups (LAGS) when approving projects and claims, the quality of file documentation in support of project approvals being generally poor and the existing framework supporting the LEADER scheme not being fit for purpose.

- 3.5 In light of the Audit Scotland findings, the Scottish Government has requested that all LAGS carry out a review of their live projects. We note that at the time of our audit, the LEADER Project Officer was in the process of carrying out this review. East Lothian Council (as lead partner for the Tyne Esk LEADER Programme) was required to submit its findings from the review to the Scottish Government.
- 3.6 We further note that a Scottish Government monitoring visit was carried out in May 2013 during which 10 Tyne Esk LEADER project files were reviewed. A number of issues were identified during the monitoring visit and an action plan was drawn up by the LEADER Project Officer to address these. As part of their overall findings, the Scottish Government recognised that there had been changes to staff since their previous monitoring visit and that this had resulted in a positive change in procedures.
- 3.7 The main findings from our audit work are outlined in the attached report.

4 POLICY IMPLICATIONS

- 4.1 None

5 EQUALITIES IMPACT ASSESSMENT

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

6 RESOURCE IMPLICATIONS

- 6.1 Financial - None
- 6.2 Personnel - None
- 6.3 Other - None

7 BACKGROUND PAPERS

- 7.1 None

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DATE	5 September 2013

EAST LOTHIAN COUNCIL – INTERNAL AUDIT TYNE ESK LEADER PROGRAMME

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the audit plan we have undertaken a review of the internal controls in place for the administration of the Tyne Esk LEADER (Liaison Entre Actions de Developpement de l'Economie Rurale) Programme. This report covers audit work undertaken for the LEADER financial years 2011/12 and 2012/13.

1.2 Areas where Expected Controls were Met

- For the grant claims reviewed, we found that the total grants paid to applicants were consistent with the LEADER grant amounts approved.
- Grant payments made had been correctly recorded in the quarterly returns submitted to the Scottish Government.
- Appropriate arrangements are in place to ensure that monitoring visits are carried out prior to the payment of the final grant claim – a copy of the Project Monitoring Form was held on file.

1.3 Areas with Scope for Improvement

- A number of anomalies were identified in the processing and payment of LEADER grant claims. *Risk – inappropriate payments may be made.*
- There was a lack of adequate segregation of duties – our review highlighted that final grant claims were being checked by a person independent of processing, however no similar arrangements were in place for checking interim claims. *Risk – errors and omissions may occur and remain undetected.*
- The governance arrangements operating in respect of the Tyne Esk LEADER Programme require review – we found that there was a risk of potential conflicts of interest arising, particularly where LAG (Local Action Group) members were connected to organisations that had been awarded significant amounts of LEADER funding. *Risk – favouritism and bias may occur.*
- Grant claims submitted by one applicant had been approved for payment, although the claims contained items of expenditure that had not been specified in the project application. *Risk – grant claims paid may relate to ineligible expenditure.*

1.4 Summary

Our review of the internal controls surrounding the Tyne Esk LEADER Programme has identified some areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

September 2013

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT
TYNE ESK LEADER PROGRAMME**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.1	Management should ensure that appropriate arrangements are in place for the processing and payment of all LEADER grant claims.	Medium	Economic Development Manager	All systems reviewed, improved where appropriate and subject to ongoing review.		In Place
3.1.3	Management should ensure that grant payments are only made for items specified and approved in the project application and which are eligible for LEADER funding.	Medium	Economic Development Manager	Agreed – review of all current files almost completed (August 2013).		December 2013
3.1.4	Management should ensure that grant payments are only made where there is evidence of procurement guidance being complied with and of appropriate quotes or estimates being obtained.	Medium	Economic Development Manager	Agreed – files pertinent to current projects (payments made from October 2012) reviewed, contacted where necessary and to be followed up as required.		December 2013

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that adequate segregation of duties exist in respect of the processing and checking of all grant claims.	Medium	Economic Development Manager	Agreed – all files receiving second check from LEADER Project Officer.		In Place
3.3.1	Management should ensure that appropriate checks are carried out on the accuracy and completeness of amounts claimed from the Scottish Government.	Medium	Economic Development Manager	All systems reviewed, improved where appropriate and subject to ongoing review. Full reconciliation of income and expenditure recently undertaken with ongoing review.		In Place
3.3.2	To ensure compliance with the SLA (Service Level Agreement), all quarterly claims should be submitted to the Scottish Government within 20 working days of the end of the quarter.	Low	Economic Development Manager	Email submission within 20 working days and finalised and agreed claim form submitted thereafter. As per ELC financial framework.		In Place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1	A review of the governance arrangements operating in respect of the Tyne Esk LEADER Programme should be undertaken – the review should ensure that appropriate Corporate Governance arrangements are in place and that conflicts of interest do not arise.	High	Economic Development Manager	All systems reviewed, improved where appropriate and subject to ongoing review. Conflicts of interest are noted in the minute of the LAG meeting and form signed, LAG member also not involved in decision-making and recorded thus. A range of protocols will be developed for new funding regime whereby LAG members will be asked to consider their position either with LAG or applicant body and to consider withdrawal from one or either of their commitments until no potential for the appearance of favouritism or bias continues.	LAG meeting planned for October 2013 will be the last assessment meeting.	Implementation for new funding programme, 2014-20.

GRADING OF RECOMMENDATIONS

To assist Management in using our reports, our recommendations are categorised according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.