

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 March 2015

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.

3 BACKGROUND

- 3.1 A review of the Tyne Esk LEADER Programme was included in the audit plan for 2014/15.
- 3.2 In October 2014, following concerns about compliance with EU regulations, the Scottish Government requested that Internal Audit review all live LEADER project files.
- 3.3 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 March 2015 |

EAST LOTHIAN COUNCIL – INTERNAL AUDIT TYNE ESK LEADER PROGRAMME

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the audit plan for 2014/15 a review was undertaken of the Tyne Esk LEADER Programme.

1.2 Areas where Expected Controls were Met

- For the projects reviewed, we found that the total grants paid to applicants were consistent with the LEADER grant amounts approved.
- Adequate evidence was on file of State Aid checks being carried out by the Project Officer.
- Checks had been undertaken to ensure that projects had appropriate match funding in place.

1.3 Areas with Scope for Improvement

- In some cases, there was a failure to identify and exclude ineligible project costs both at the application stage and when grant claims were submitted by applicants. *Risk – failure to recover grant payments made from the Scottish Government.*
- There was a lack of a clear audit trail for project modifications – in some cases Change Request Forms had not been approved. *Risk – inappropriate expenditure may be incurred.*
- The existing procedures to establish if projects need LEADER funding require review – grants should only be approved for projects that clearly demonstrate a need for LEADER funding. *Risk – inappropriate grant awards may be made.*
- There was a lack of adequate documentation on file to demonstrate value for money and reasonableness of cost – in some cases there was a failure by the applicant to follow proper procurement procedures. *Risk – favouritism and bias may occur.*
- For some grant claims submitted there was a lack of supporting documentation on file to evidence the expenditure incurred. *Risk – inappropriate grant payments may be made.*
- For grant claims processed, we found that in a number of cases the claims checklist had not been fully completed by the preparer or countersigned by a senior member of staff. *Risk – errors and omissions may occur and remain undetected.*

1.4 Summary

Our review of Tyne Esk LEADER project files has identified a number of areas with scope for improvement. Detailed findings and recommendations are contained in our main Audit Report.

Mala Garden
Internal Audit Manager

March 2015

ACTION PLAN

| PARA REF | RECOMMENDATION | GRADE | RESPONSIBLE OFFICER | AGREED ACTION | RISK ACCEPTED/ MANAGED | AGREED DATE OF COMPLETION |
|-----------------|--|--------------|-------------------------------------|----------------------|-----------------------------------|----------------------------------|
| 3.1.1 | Management should ensure that all application forms are properly signed and dated by the applicant prior to being considered by the Local Action Group. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |
| 3.2.1 | Management should ensure that grant funding is only approved for projects within the eligible Tyne Esk LEADER area. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |
| 3.2.2 | For capital/land projects, sufficient evidence should be held on file to confirm that applicants have control of the asset for at least the duration of the five year compliance period. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |
| 3.2.4 | Management should ensure that all relevant documentation is held on file to clearly demonstrate value for money and reasonableness of cost. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |

| PARA REF | RECOMMENDATION | GRADE | RESPONSIBLE OFFICER | AGREED ACTION | RISK ACCEPTED/ MANAGED | AGREED DATE OF COMPLETION |
|-----------------|--|--------------|-------------------------------------|----------------------|-------------------------------|----------------------------------|
| 3.2.5 | Management should ensure that appropriate checks are undertaken to establish if the applicant needs LEADER funding – awards should only be considered for organisations who do not have the ability to carry out the project without LEADER funding. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |
| 3.3.1 | Management should ensure that project scoring sheets completed by Local Action Group members are held on file to confirm that the project has been assessed. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |
| 3.3.2 | Management should ensure that a formal grant letter is on file for all LEADER awards made. The signed acceptance of grant letter returned by the applicant should be date stamped when received by the Council. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |

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|-----------------|---|--------------|-------------------------------------|----------------------|-------------------------------|----------------------------------|
| 3.3.3 | For all project modifications, an approved Change Request Form should be held on file. | High | Team Manager – Economic Development | Agreed | | March 2015 |
| 3.4.1 | For all grant payments made, Management should ensure that appropriate supporting documentation is submitted by applicants to evidence the expenditure incurred. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |
| 3.4.2 | Management should ensure that appropriate guidance and advice is provided to applicants in respect of defrayment – there should be clear evidence that all amounts paid have been defrayed from the applicant's bank account. | High | Team Manager – Economic Development | Agreed | | March 2015 |

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|-----------------|--|--------------|-------------------------------------|----------------------|-------------------------------|----------------------------------|
| 3.4.3 | Management should ensure that for all claims processed a fully completed claims checklist is held on file – the checklist should be verified and signed by the preparer and countersigned by a senior member of staff. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |
| 3.4.4 | Management should ensure that where the actual project costs are below the total approved project amount, the % of LEADER grant funding awarded is adjusted to reflect this. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |
| 3.4.5 | Management should ensure that appropriate checks are undertaken to identify and exclude ineligible expenditure both at the application stage and when claims are submitted by applicants. | Medium | Team Manager – Economic Development | Agreed | | March 2015 |

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. |