

Item: 5.1

Monitoring and Audit Committee: 23 September 2021.

Internal Audit Report: Orkney LEADER Programme.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the internal audit report on procedures and controls in relation to the administration of the Orkney LEADER Programme.

2. Recommendations

The Committee is invited to note:

2.1.

That Internal Audit has undertaken a review of compliance with the LEADER Programme Service Level Agreement and relevant European Commission Regulations.

2.2.

The findings contained in the internal audit report, attached as Appendix 1 to this report, relating to the administration of the Orkney LEADER Programme during the period 1 October 2020 to 31 August 2021.

It is recommended:

2.3.

That the Committee review the audit findings to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

The Service Level Agreement between the Scottish Ministers and the Council, acting as the Accountable Body for the Orkney LEADER Local Action Group, defines the responsibilities and obligations, duties and accountabilities of both parties as a result of the Accountable Body's role as a delivery partner in the Scottish Rural Development Programme for the period 2014 to 2020.

3.2.

The Service Level Agreement requires the Council to provide an internal audit function which shall carry out an annual assessment of adherence to the requirements of the Service Level Agreement and relevant European Commission Regulations. The internal audit function must provide the report to the Rural Payments and Inspection Directorate.

3.3.

The period covered by the audit report is 1 October 2019 to 31 August 2020. The audit covered all stages of the grant process including application, awards, claims, project monitoring and completion. The process for drawing down the funding from LEADER was also examined.

4. Audit Findings

4.1.

The audit provides substantial assurance that the procedures in place for the administration of the Orkney LEADER Programme were sound, and testing carried out found that controls were in place and working well.

4.2.

The internal audit report, attached as Appendix 1 to this report, does not include any recommendations.

5. Corporate Governance

This report relates to the Council complying with its governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

There are no financial implications associated directly with the recommendations to this report.

7. Legal Aspects

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

8. Contact Officers

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9. Appendix

Appendix 1: Internal Audit Report – Orkney LEADER Programme.



Internal Audit

Audit Report

Orkney LEADER Programme

Draft issue date: 31 August 2021

Final issue date: 07 September 2021

Distribution list:	<p>Interim Executive Director of Finance, Regulatory, Marine and Transportation Services</p> <p>Head of Planning, Development and Regulatory Services</p> <p>Development and Regeneration Manager</p> <p>LEADER Development Officer</p>
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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Substantial

The framework of governance, risk management and control were found to be comprehensive and effective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

Our audit confirmed that the procedures in place for the administration of the Orkney LEADER Programme were sound, and testing carried out found that controls are in place and working well, with several areas of good practice evident. For example:

- Formal detailed written processes and procedures covering all aspects of the Orkney LEADER Programme from project enquiry to project end are in use.
- The online grant management system provided by the Scottish Government, LARCS (Local Actions in Rural Communities System), is used for all aspects of the process i.e. application, awards, project monitoring and claims processing.
- Project documentation held within LARCS is comprehensive, containing all required information relating to the projects examined.
- Applicants are provided with a professional level of support throughout the process. This has included a comprehensive start up meeting and applicants being provided with a named Officer from within the team as a point of contact.

The audit work has shown that for the period 1 October 2020 to 31 August 2021 covered by the report the Orkney LEADER Programme was compliant with both the service level agreement (SLA) and relevant EU regulations.

Reporting requirements are being met and formal procedures and guidelines are updated on a regular basis and where relevant, these are integrated with existing Council policies, procedures and controls. Files are set out in a logical way ensuring a comprehensive audit trail is available for all stages.

Good endeavour from Officers in maintaining a high level of customer support during the COVID-19 pandemic has continued to be provided by the LEADER team.

The Scottish Government carried out their own audit of Orkney's LEADER programme during June 2021. The result of which was that the Council has successfully maintained its Green RAG status.

There are no audit recommendations as a result of our review.

Total	High	Medium	Low
0	0	0	0

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Internal Audit Section have, as per requirement number 5.4 of the Service Level Agreement (SLA) between the Scottish Ministers and Orkney Islands Council (OIC) acting as Accountable Body, carried out an audit to confirm adherence to the SLA, the relevant EC Regulations and to provide an overall assurance on the efficacy of the systems and processes in place. The current SLA was signed by OIC on 14 August 2015.

The period covered by the report is 1 October 2020 to 31 August 2021.

This review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

Audit Scope

The audit approach undertaken was to examine compliance with Annexes A and B of the SLA and the Orkney Leader Programme 2014 to 2020 Procedures and Guidelines. Six individual projects were selected for examination, from the initial enquiry stage through to each of their respective stage of progress at the time of review.

The projects which were examined during the audit were:

1. Orkney Food and Drink
2. Heating and Environmental Upgrade for Firth Community Centre
3. Mull Head Local Nature Reserve Access and Interpretation Project
4. South End Play Area
5. Breck Be South Long Term Let
6. Promoting Orkney

Audit Findings

1.0 Maintenance of Documents

- 1.1 The Orkney LEADER Programme 2014 – 2020 Procedures and Guidelines document covers all aspects of the programme from project enquiry through to project completion.
- 1.2 Individual projects are recorded on LARCS and hard copy files.

No recommendation required

2.0 Reporting

- 2.1 Since 1 January 2019 it has been a requirement from the Scottish Government that drawdowns for both project cost and administrative reimbursements are made monthly. Prior to this date drawdowns were made quarterly. It was confirmed that each claim had been presented in a timely manner. Five monthly claims for both project and administrative costs were audited in detail with all five claims verified as an accurate record of the costs incurred during the respective period.

No recommendation required

3.0 The Application Process

- 3.1 Six projects for funding during the period of review were selected for audit. For each of the six projects, all required correspondence, including electronic copy documentation is held on the LARCS system. The application form completed for each of the six projects was reviewed and approved by the LEADER Development Officer (LDO). The LDO provided each applicant with assistance, comments and suggestions during the application process. Applications for all six projects examined had been completed in accordance with the agreed guidance, with a list of eligible costs prepared.
- 3.2 Supporting documentation had been supplied by the applicants as required. All groups supplied a copy of their constitution. For all six projects, applications were for no more than 50% of the total eligible costs. Application process checklists had been completed within LARCS for each project.
- 3.3 Two of the six projects selected were submitted by the Council. For both of these projects, confirmation was received that they did not relate to a statutory duty of the Council.

No Recommendation Required

4.0 The Awards Process

- 4.1 A file has been maintained of completed and signed forms from each member of the Local Action Group (LAG) which identifies their employer and any potential conflicts of interest they may have had. The file is controlled by use of a spreadsheet. At each LAG meeting advice was given on the requirement to declare any potential conflicts of interest relating to each project.
- 4.2 For each of the six selected applications, project appraisal sheets were completed with all six projects assessed as successful due to meeting or exceeding the minimum scoring criteria. The approval for each project examined was documented in the minutes of the LAG

meetings. Each applicant was advised in writing of the decision once their project was assessed. All evidence is recorded on LARCS. Each approved project is recorded within LARCS as constituting part of the LEADER funds awarded.

No Recommendation Required

5.0 Project Commencement

5.1 For all six projects, each were found to have commenced on or after the date of the receipt of all required information.

No Recommendation Required

6.0 Claims Processing and Monitoring

6.1 Twenty-nine claims have so far been processed over the six selected projects.

6.2 The LDO maintains budget control and claims made spreadsheets, which highlight, inter alia when project claims are due or overdue. Bi-weekly team meetings are held where progress recorded on the spreadsheets is discussed.

6.3 Each claim was examined, in detail, by the Leader Assistant Project Officer (LAO) who completed both a manual and LARCS based checklist. The items detailed on the invoices were relevant and eligible and all claims included reasonable costs only.

6.4 The procurement regulations had been complied with for all six projects reviewed.

6.5 All invoices were dated after the date of approval for each project and all invoices were addressed to the applicants. All invoices were date stamped.

6.6 Proof of payment was received for each invoice. VAT was correctly accounted for and all information had been received before the claims had been processed. The claim was correctly totalled and showed signs of being double checked. The correct percentage had been applied to all claims.

6.7 Each claim had been appropriately authorised and a letter to the claimants provided in all instances confirming satisfactory completion of the form and authorisation of payment. Each claim was paid via BACS.

No recommendation required

7.0 Project Completion

7.1 Five of the six selected projects had completed at the time of this report. These projects were completed in compliance with the requirements of the LEADER Programme 2014 to 2020 Procedures and Guidance document. All five final claims were made within 12 weeks of the final milestone delivery date.

No recommendation required

8.0 Programme Management

- 8.1 Spreadsheets controlling all expressions of interest and overall budget allocation were reviewed and were found to be well structured and effective in ensuring that the whole of the LEADER budget available to Orkney was effectively allocated in supporting projects.
- 8.2 The accounting cost code for LEADER was reviewed. For all costs reviewed, those that should be reclaimed by the Council in reimbursing project costs or administering LEADER funding were reclaimed.

No recommendation required

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.