

## Internal Audit Report

**Tyne Esk LEADER**

Audit Committee  
Tuesday 12 December 2017  
Item No: 5.6

**Issued: November 2017**  
**Final**

<b>Level of Assurance</b>	<b>Objectives</b>	<b>Rating</b>
	<ol style="list-style-type: none"> <li>1. Review of the governance, management processes, and administration for Tyne Esk LEADER to ensure that adequate arrangements are in place to cover the terms of the SLA, and any associated European Union Regulations.</li> <li>2. Review of processes for consideration of project and funding applications: handling of enquires; consideration of expressions of interest; any initial project application development; scoring and decision making processes by the LAG; and the adequacy of the framework for monitoring the performance of grant recipients.</li> <li>3. Review of the LEADER administration grant claim processes, to include adequacy of:             <ol style="list-style-type: none"> <li>a. information and evidence compilation;</li> <li>b. records management systems;</li> <li>c. separation of duties;</li> <li>d. compliance with grant claim regulations;</li> <li>e. effectiveness of communications between the Accountable Body and the Scottish Government team.</li> </ol> </li> </ol>	<b>Good</b> <b>Average</b> <b>Good</b>

<b>Table of Contents</b>	
Page 1	Executive Summary
Page 5	Audit Issues and Management Action Plan
Page 14	Definitions of Ratings and Distribution List (Appendix 1)
Page 16	Terms of Reference (Appendix 2)

# Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

## Executive Summary

### 1.0 Introduction

This report has been prepared following an internal audit of the Tyne Esk LEADER (Liaison Entre Actions de Developpement de l'Economie Rurale) Programme. This report covers the work of the Tyne Esk LEADER programme from 16 October 2016 to 15 October 2017. The Service Level Agreement (SLA) requires that Internal Audit undertake an assessment annually of the extent of observance by the Accountable Body (Midlothian Council) of the requirements of the SLA.

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 Midlothian and East Lothian. The SRDP is part of the EU Common Agricultural Policy and is funded by the European Commission and the Scottish Government. There are a total of 21 LEADER programmes established throughout Scotland, and each of these is governed by a separate Local Action Group. LEADER is a bottom-up method of delivering support to communities for rural development. Grants are awarded by Local Action Groups (LAGs) to projects that support delivery of a Local Development Strategy. For each LAG there is an Accountable Body to support the administration of the programme.

Midlothian Council is the Accountable Body for the 2014-2020 Tyne Esk LEADER Programme. As the Accountable Body, Midlothian Council has delegated responsibility for a range of processing, payment, and administration functions as set out in the SLA. This includes all aspects associated with the implementation of the approved Local Development Strategy, such as the presentation, assessment and clearance of applications through the LAGs, and the subsequent approval and post approval case management functions.

The Tyne Esk Local Action Group for the 2014-2020 programme has 13 individual members (maximum size of 16) and these were selected through a competitive process. The LAG has to have a minimum 51-49% split between public sector and non-public sector in line with Scottish Government guidance, The Tyne Esk LAG currently has a 31-69% split. The chair and vice chair have been elected through a democratic process. In order for the LAG to be quorate there must be a minimum of 7 members, with at least 4 drawn from the private sector or third sector.

Midlothian Council has received a funding allocation from the Scottish Government of £3,490,769 to administer a LEADER Programme throughout the rural areas of Midlothian and East Lothian, and funding is reclaimed from the Scottish Government after it has been defrayed. This programme will deliver the priorities set in the Tyne Esk LEADER Local Development Strategy (LDS).

The application process for LEADER is as follows:

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

- the applicant will submit an Expression of Interest form through the Scottish Rural Network website. Through this website the applicant will select their LAG area (eg Tyne Esk);
- the person who submitted the Expression of Interest will attend a workshop held by the staff team fortnightly to go over the processes and requirements of a LEADER application;
- a member of the LEADER staff team will then meet with the applicant to discuss the project in more detail;
- a summary of the Expression of Interest will be sent to the LAG for initial evaluation;
- the LEADER team will provide further guidance to the applicant to enable the applicant to prepare a full application to the LAG;
- the LEADER team will provide a username and password to the applicant to the Local Actions in Rural Communities system (LARCs). LARCs is the grants management system provided by the Scottish Government which covers the process of applying for LEADER funding and for the completion of claim forms for the drawdown of funds;
- the applicant will then complete their application and provide to the LEADER team appropriate information as required by the guidance (eg financial accounts or planning permission where relevant);
- LEADER staff will work with the applicant to develop the project before submitting to the LAG for an assessment and decision;
- the project will be submitted to the LAG for approval;
- the applicant will complete any necessary conditions for funding included in the grant letter, for example to seek appropriate planning consents, and will submit evidence of this to the LEADER team;
- a start date for the project will be agreed with the applicant when the applicant signs and returns the grant acceptance letter;
- the applicant will submit relevant invoices, bank statements, and progress reports to the LEADER team and LEADER will then pay the applicant for the proportion of the costs eligible for grant aid at the achievement of the appropriate pre-agreed project milestones; and
- LEADER may carry out interim inspections while the project is underway, but these are not mandatory in the guidance. A final comprehensive ‘In Situ’ inspection will be completed prior to paying the final grant claim to the applicant. In Situ inspections are mandatory and include more detailed analysis of project completion and will be supported by photographic evidence. These may be completed close to the end of the project, but LEADER may do more than one inspection at an earlier stage for very large projects.

As at October 2017, a total of 114 Expression of Interests have been received for the Tyne Esk Leader Programme. There is 1 completed project, 11 live projects, 3 projects awaiting start, 1 approved project awaiting the return of grant acceptance form, 4 projects at Decision in Principle stage, and 17 projects at application development stage. 2 projects have been rejected by the LAG, and 1 project was approved by the LAG but the project was later withdrawn by the applicant.

# Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

## **2.0 Objectives of the Audit**

The audit objective is to provide assurance on the adequacy of the internal controls in place for the administration of the Tyne Esk LEADER Programme. A copy of the terms of reference for the review is attached on page 16.

## **3.0 Conclusion**

Our audit identified that management implemented a number of systems, internal controls, and procedures for the Tyne Esk LEADER Programme. During the course of the audit we noted the following strengths:

- adequate arrangements have been established to ensure that compliance with the SLA is monitored;
- clear governance arrangements have been established for the Council and the LAG;
- satisfactory arrangements are in place for reviewing funding applications, handling enquiries, and initial project application development;
- the projects fit with the aims of the Local Development Strategy ; and
- appropriate processes are in place for the processing of LEADER administration grant applications and claims, including information and evidence compilation, records management, separation of duties, compliance with grant claim regulations, and communication with the Scottish Government team.

Some areas were identified with scope for improvement. These included:

- LEADER should review their approach to obtaining quotes to ensure sufficient evidence of quotes/tenders is obtained at the project application stage;
- reasonableness of costs forms should be completed and signed off in all cases, and process improvements were identified for the reasonableness of costs form;
- a standard process should be introduced for all applicants to provide confirmation that the quotes provided for assessing reasonableness of cost are not from businesses connected to the applicant;
- although it is noted that applicants must confirm within LARCS that their project is in the eligible LAG area, LEADER should upload evidence that confirms this particularly as some projects may not be based in the LAG area but have their market in the LAG area;
- all relevant project evidence in the paper file should be uploaded to the LARCS system;
- a process should be further developed to evidence the comparison between the project application cost description and the claims cost description to support the prepayment checklist and ensure that the breaches and penalties rules do not need to be applied; and
- the LEADER team should endeavour to comply with the SLA's requirement to submit claims to the Scottish Government within 20 working days.

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

As noted above, a number of strengths were identified, but also some weaknesses have been identified and improvements to these are possible. We have in this instance rated this audit by the individual control objectives in accordance with the table on the front page. We have raised a number of recommendations which are detailed in the Management Action Plan to reduce risk further and these recommendations have been agreed by management.

# Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

## 4.0 Findings

### 4.1 Demonstration of Project Costs

#### Receipt of quotes for project costs at claims stage

As part of the LEADER grants process, applicants are required to submit evidence that demonstrates how they have arrived at costs and in doing so, consider the costs to be reasonable. In most cases applicants will submit quotes to confirm the reasonableness of costs as part of their application. For significant projects with more than £50k of project costs to a single supplier, LEADER may include as a requirement in the grant letter for a full competitive tender to be completed for the project and for all relevant information on this tender to be submitted to LEADER (though this will vary project to project and the judgement of the LAG). For organisations subject to the 2012 Scottish Public Procurement Regulations, (eg Local Authorities, National Park Authorities etc), public sector procurement rules apply for the purchase of any goods and services funded under LEADER.

The policy established by Tyne Esk LEADER has been to allow applicants that do not have to apply the 2012 Scottish Public Procurement Regulations to be accepted on the basis of 1 quote at application stage provided 3 quotes for project costs are provided justifying the costs at project claims stage (ie for quotes to be submitted when the applicant submits invoices to LEADER for project costs requesting payment by the Council). However, it is noted that some applicants do still provide multiple quotes at application stage, and for very large complex projects, the grant will be awarded with the condition that a full tender process is completed and evidence submitted to LEADER.

A review of LEADER documentation suggests that it is preferable for quotes to be received at the application stage rather than at the claims stage. There were specific issues noted during the audit review in relation to the receipt of quotes that were potentially exacerbated by the current approach:

- for 1 project reviewed, the applicant had already proceeded in engaging with suppliers for the project before submitting evidence of 3 quotes to confirm reasonableness of costs to the LEADER team. The information initially submitted by the applicant did not provide a full breakdown of the quotes for the selected suppliers, and one of the quotes for a supplier that was not selected was not on headed paper meaning the supplier was not identifiable;
- for another project reviewed the applicant submitted 3 quotes, but the quotes were not comparable due to changes in the specification between 1 quote being received at application stage and the 2 other quotes being received at claims stage. This gave the impression of the most expensive quote being accepted by the applicant, although the LEADER Programme Coordinator notes that this is not the case and is mainly due to changes in the project's specification. The LEADER Programme Coordinator is awaiting further evidence from the applicant to clarify this; and

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

- for 2 projects that both received three quotes, it was noted there was insufficient analysis provided by the applicant as to why they had selected their chosen supplier.

Receiving quotes at application stage rather than at the claims stage provides LEADER with additional assurance that the costs supplied are reasonable before the applicant has engaged with any suppliers. With the current procedure, there is a risk that the applicant may have already engaged with a supplier before LEADER has had an opportunity to review the quotes in detail to confirm their adequacy (eg to confirm that the quotes are on headed paper with VAT number, sufficiently detailed, and comparable). LEADER may not fund applications if insufficient evidence demonstrating reasonableness of project costs is submitted to LEADER, therefore, ensuring the quotes are adequate at an earlier stage helps mitigate this risk for the applicants.

### Review of reasonableness of costs

At the application stage, a Value for Money / Reasonableness of Costs (RoC) assessment is completed by the member of LEADER staff responsible for developing the application to confirm the costs included in the project application are reasonable and to evidence this process. Additionally, this form allows for robust review of the project for any eligible/ineligible expenditure, but it is noted that this is also reviewed as part of the applicant's application form. Once completed, this assessment is signed by the member of LEADER staff developing the application and then uploaded into the LARCS system.

Testing of a sample of 13 projects, identified that for 3 projects this assessment had not been completed, and for 4 projects the unsigned version of the RoC had been uploaded to LARCS (admin error). It has been advised that the reason for non-completion of the 3 RoCs was that the LEADER Programme Coordinator and the LAG were satisfied with the quotes received and felt it was not necessary to complete a RoC assessment for these projects. However, if the RoC is not completed then it is not evidenced in LARCS that this assessment has been made.

A review of RoCs identified that there is a focus on price within the RoCs, and they would benefit from expanding this to include more detail on quality particularly when comparing different quotes. For higher value projects, LEADER should obtain assurance from the applicant that the selected supplier is financially stable. The RoC did not always clearly indicate which supplier had been selected. LEADER should review whether a separate note can be added in LARCS at a later stage if the selected supplier and reasoning for selection is not detailed in the RoC.

The guidance recommends that the LAG should engage independent technical expertise where appropriate to help in assessing applications when expertise is not available in the LEADER team or the LAG. It was noted during the review that this has been used rarely given the expertise within the LAG (the LAG up until recently included a Civil Engineer). It was noted that LEADER has consulted the Council's own Building Standards team for advice in confirming reasonableness of costs for some projects. We recommend LEADER should expand on this

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

process to ensure appropriate external advice is obtained where appropriate for larger and complex projects. This is particularly important for guidance on the difference between a ‘repair’ (which is ineligible under LEADER guidance) and ‘enhancements’ and ‘renovations’ (both allowable under LEADER guidance).

### Risk applicant is connected to the supplier

The LEADER General Applicant Guidance states that:

‘Multiple Quotes or tenders must come from:

- different suppliers that trade as standalone businesses and are not linked through shared ownership; and
- a business that’s independent from the applicant or their business.’

Currently, applicants are not required to submit a confirmation that they are not connected to any of the businesses that quotations or tenders have been obtained from. During audit fieldwork, 2 projects were noted as submitting quotes from companies they are connected to. 1 project did not use the connected company. The other project proceeded with the connected company, but only after a full tendering exercise attended by LEADER staff was carried out to confirm value for money. This process was clarified with the Scottish Government before proceeding.

In the first example, the applicant provided the quote along with the 2 other quotes and noted that the business was connected – in this case LEADER advised the applicant to provide an additional quote at claims stage to evidence value for money as the quote from the connected company was not acceptable. In the second example, LEADER only identified that the business was connected through review of the applicant’s bank statements when evidencing match funding at the project application stage. LEADER should introduce a standard process for all applicants to provide confirmation that the quotes provided for assessing reasonableness of cost are not from businesses connected to the applicant.

No	Recommendation	Priority	Manager	Target Date
1	<p>LEADER should obtain the appropriate number of quotes / tender information at application stage in order to ensure there is sufficient evidence of reasonableness of costs / value for money. Quotes should be sufficiently detailed and comparable.</p> <p>This approach should be set out in an approved LAG procedure and all relevant</p>	High	LEADER Programme Coordinator	31/03/2018

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

No	Recommendation	Priority	Manager	Target Date
	applicants should be advised of the revised procedure.			
2	Reasonableness of Costs / Value for Money statements should be completed for all projects and the final signed version of this document should be uploaded to LARCS.	Medium	LEADER Programme Coordinator	31/03/2018
3	<p>The Reasonableness of Costs / Value for Money statement should be expanded to include more detail on quality particularly when comparing different quotes.</p> <p>LEADER should review whether a separate note can be added in LARCS at a later stage noting the selected supplier and the reasoning for this if reasoning for the selected supplier is not detailed in the RoC.</p> <p>For higher value projects, LEADER should obtain assurance from the applicant that the selected supplier is financially stable.</p>	Medium	LEADER Programme Coordinator	31/03/2018
4	LEADER should ensure that appropriate external advice is obtained for the LAG, where appropriate, for larger and complex projects. This is particularly important for guidance on the difference between a 'repair' (which is ineligible under LEADER guidance) and 'enhancements' and 'renovations' (both allowable under LEADER guidance).	Medium	LEADER Programme Coordinator	31/03/2018
5	<p>LEADER should ensure all applicants provide confirmation that the quotes provided for assessing reasonableness of cost are from businesses that are independent from the applicant or their business.</p> <p>Additionally, LEADER should evidence confirmation from the applicant that the quotes received are different suppliers that trade as standalone businesses and are not linked through shared ownership.</p>	High	LEADER Programme Coordinator	31/03/2018

### 4.2 Payment of Project Costs

It was noted during the review that more workings could be provided to evidence that the applicant's claims have been compared to the quotes provided, as is required by the prepayment checklist. This is important as differences between the applicant's awarded grant and the invoice claim are in effect a 'change request', and these are subject to breaches and penalties rules if actual costs are over 10% of the awarded grant. This risk is mitigated by project financial milestones established in LARCS which limit the amount the applicant can claim for each phase of the

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

project without applying a change request, but LEADER staff still have to confirm that the items detailed in the invoice agree to the quote to ensure change requests are adequately controlled. No evidence of claims being above the grant award was noted in the audit review.

No	Recommendation	Priority	Manager	Target Date
6	A process should be developed to evidence the comparison between the project application costs and the claims costs to support the prepayment checklist and ensure that the breaches and penalties rules do not need to be applied.	Medium	LEADER Programme Coordinator	31/03/2018

### 4.3 Change Management Procedures

A change request policy has been established and approved by the LAG. This policy sets out the authorisation thresholds for project changes. In summary, the policy outlines that project changes under 3 months and cost changes below 10% can be approved by the LEADER Project Coordinator without being submitted to the LAG. Requests for changes between 3 and 9 months can be approved by the LAG office bearers without being submitted to the full LAG, and significant changes to project costs and extensions over 9 months require submission to the full LAG.

Our review identified that the process for change management is being adequately documented in LARCS with sufficient detail in most cases. Additionally, for projects requiring approval above the LEADER Project Coordinator's authority evidence had been uploaded to LARCS that authorisation had been sought from the LAG office bearers and line management as required by the change request policy. For one project included in the review, it was noted that more detail should have been documented to explain the reason for a minor variance in budget (adequate authority was established for this as it was below 10% of project costs).

No	Recommendation	Priority	Manager	Target Date
7	For significant budget changes in projects, LEADER should upload evidence to clarify the reasoning behind the differences.	Medium	LEADER Programme Coordinator	31/03/2018

### 4.4 Application Evidence and Audit Trail

It was noted during the review that no evidence was uploaded to LARCS or included in the physical file to prove that the project is in the eligible project area. This is important as it evidences the audit trail of the funding decision. Additionally there may be projects that are not based in

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

the LAG area but has its market in the LAG area the project may be eligible for funding; therefore, this information needs to be recorded in LARCS.

Three projects were noted in the review as being either loss making or having significant liabilities. The LEADER Programme Coordinator notes that the risk of funding these projects was discussed during the LAG meeting and the LAG were satisfied with the level of risk. Additionally, advice was sought from business in a similar sector for one of the applicants to clarify if the level of liabilities was normal for the sector. Given the increased risk of funding projects in a weak financial position, we recommend that a file note should be added to LARCS explaining the LAG's decision with appropriate evidence attached.

For some projects it was noted that evidence of insurance was submitted while for others it was not. We recommend management should develop a standard written approach for collection of insurance information from applicants to follow.

During the audit review it was noted that there has been a delay in uploading all relevant documents to the LARCS system for some projects. The LEADER Programme Coordinator should ensure that LARCS includes all relevant supporting evidence such as confirmation of grant acceptance letters, planning consents, and completion of necessary conditions detailed in the grant letter.

No	Recommendation	Priority	Manager	Target Date
8	Evidence should be uploaded to LARCS to confirm that the project is in the LAG area, or if it is not in the LAG area then how it has been assessed that the primary market is in the LAG area.	Medium	LEADER Programme Coordinator	31/03/2018
9	For projects in a weak financial position, we recommend that a file note should be added to LARCS explaining the LAG's decision with appropriate evidence attached.  <b>Management Comment</b> The Technical Check has been expanded to include detail on this. This revised Technical Check has now been used for 2 projects.	Medium	LEADER Programme Coordinator	Complete
10	We recommend management should clarify within the technical check whether what the applicant has supplied in terms of insurance is acceptable as it is understood that the evidence requirements will vary from project to project.	Low	LEADER Programme Coordinator	31/03/2018
11	LEADER should ensure that all relevant project evidence and audit trail included in the project's physical file is uploaded to LARCS.	Medium	LEADER Programme	31/03/2018

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

No	Recommendation	Priority	Manager	Target Date
			Coordinator	

### 4.5 Monitoring and In Situ Visits

As only 1 project is completed only 1 'In Situ' visit was available to review. The 'In Situ' visit appears to have been completed to a satisfactory standard with photographic evidence of the project saved on file in LARCS with a description of the site visit by the LEADER Finance Support Officer and feedback from the applicant. However, we recommend consideration should be given to providing additional detail on the 'In Situ' form for the officer to confirm she has physically seen a sample of the specific items claimed for. Additionally, consideration should be given to having this form authorised by the LEADER Programme Coordinator.

No	Recommendation	Priority	Manager	Target Date
12	Consideration should be given to providing additional detail on the 'In Situ' form for the officer to confirm she has physically seen a sample of the specific items claimed for. Additionally, consideration should be given to having this form authorised by the LEADER Programme Coordinator to confirm that he is satisfied with the inspection and how the project has been completed.	Medium	LEADER Programme Coordinator	31/03/2018

### 4.6 Reclaim of Funds from the Scottish Government

The SLA requires LEADER to submit quarterly returns to the Scottish Government for reimbursement of administration costs of the programme and project costs. No administration errors were noted with the returns submitted to the Scottish Government. However, it is noted that in the SLA it states that returns should be submitted to the Scottish Government within 20 working days of the quarter end. This requirement is currently not being met by LEADER. As at October 2017, only 2 claims have been made to the Scottish Government thus far with the last claim being for the quarter ended September 2016. LEADER has reclaimed £49,901 for 2 claims and are due to reclaim £142,036 for 3 claims. LEADER note that they will start making claims soon, but the team have had competing priorities.

No	Recommendation	Priority	Manager	Target Date
13	The LEADER team should endeavour to comply with the SLAs requirement to submit claims to the Scottish Government within 20 working days.	Medium	LEADER Programme Coordinator	31/03/2018

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

### 4.7 LAG Scoring and Evidence of Quorum

The LAG have introduced processes to confirm the LAG is quorate before the start of each meeting and to monitor this. However, it is noted that interests are being declared during application stages at the meeting, and some LAG members are leaving during the scoring stages of the meeting. Therefore, it can be difficult to determine which LAG members have approved an application.

Additionally, it was noted through review of scoring sheets that not all LAG members are scoring projects. Although scoring is not mandatory, it demonstrates engagement by LAG members and evidence that the LAG view the project as fitting within the Tyne Esk LEADER Local Development Strategy.

No	Recommendation	Priority	Manager	Target Date
14	<p>Minutes should be improved to detail the LAG members present for each application to confirm the decision is quorate.</p> <p><b>Management comment</b></p> <p>It will be included in the minutes for each application a list of who was present for the vote. This can then be checked to the attendance record and declaration of interest form that is prepared at the start of the meeting.</p>	Medium	LEADER Programme Coordinator	31/03/2018
15	All LAG members should be encouraged to score projects where possible.	Low	LEADER Programme Coordinator	31/03/2018

### 4.8 Conflicts of Interest and LAG Register of Interests

It was noted during the review some LAG members are current applicants to the Tyne Esk LEADER Programme. There is no law or EU requirement that disallows this practice. Before accepting current applicants as LAG members, the LEADER Programme Coordinator clarified this position with the Scottish Government LEADER contact. Also, it is noted that these LAG members are adequately declaring interests with respect to voting. However, this may be perceived by outsiders as not being fully independent. It is noted that the LAG will risk no longer being quorate if current applicants are no longer allowed to be members of the LAG. Therefore, we recommend recruiting more members to the LAG that are not current applicants to the programme to increase the LAG's perception of independence.

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

No	Recommendation	Priority	Manager	Target Date
16	<p>More members should be recruited to the LAG that are not current applicants to increase the LAG's perception of independence.</p> <p><b>Management Comment</b></p> <p>We have spent a lot of time and effort on recruitment but people are reluctant to get involved given the amount of work. One new LAG member quit before attending a single meeting due to the amount of reading and work and others have left due to this.</p>	Medium	LEADER Programme Coordinator	31/03/2018

# Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

## APPENDIX 1

### Definitions of Ratings

#### Audit Opinion

Level of Control	Reason for the level of Assurance given
<b>Excellent</b>	The control framework is of a high standard with no unacceptable risks identified.
<b>Good</b>	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
<b>Average</b>	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
<b>Weak</b>	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.
<b>Poor</b>	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.

#### Recommendation Rating

Priority	Risk Definition
<b>High</b>	Legal / regulatory issues would normally be regarded as high risks.  Strategic risks would normally be regarded as high risks.  Financial impact - £50K plus and / or national press interest
<b>Medium</b>	£5K - £49K and / or local press interest
<b>Low</b>	Under £5K and / or no press interest.

# Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

## Distribution

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- Mary Smith, Director, Education, Communities and Economy
- Ian Johnson, Head of Communities and Economy
- John Anzani, Economic Development Manager (Acting)
- Neil Ramsay, LEADER Programme Coordinator

## Audit Team

Author:	James Polanski	Auditor
Reviewer:	Elaine Greaves	Internal Audit Manager

# Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

## APPENDIX 2

TERMS OF REFERENCE:	
<b>Audit Objective and Scope</b>	
<p><b><u>Audit Background:</u></b></p> <p>The LEADER (Liaison Entre Actions de Developpement de l'Economie Rurale) programme is one element of the Scotland Rural Development Programme 2014-2020 (SRDP) which aims to promote economic and community development within rural areas of Scotland.</p> <p>On approval from the Scottish Government, Midlothian Council as the Accountable Body for the Tyne Esk LEADER programme has been issued with a Service Level Agreement (SLA). This details the relationship between the Council and the Scottish Government and also the requirements, responsibilities and accountabilities of each for the Programme period 2014-20.</p> <p>The SLA between the Scottish Government and Midlothian Council requires an annual internal audit of the functions and services undertaken by the Council in fulfilment of its role as the Accountable Body. This internal audit assessment includes the extent of observance by the Accountable Body of the requirements of the SLA.</p> <p>In the case of Tyne Esk LEADER, the SLA was signed on 30 December 2015. The annual reporting date for the SLA is 15 October. The funding allocation for the Tyne Esk Leader Programme is £3,490,768, with 25% of this budget being for administration of the programme.</p> <p><b><u>Audit Objective:</u></b></p> <p>The audit objective is to provide assurance on the adequacy of the internal controls in place for the administration of the Tyne Esk LEADER Programme. The audit will include a review of the following:</p> <ol style="list-style-type: none"><li>4. Review of the governance, management processes, and administration for Tyne Esk LEADER to ensure that adequate arrangements are in place to cover the terms of the SLA, and any associated European Union Regulations.</li><li>5. Review of processes for consideration of project and funding applications: handling of enquires; consideration of expressions of interest;</li></ol>	

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

any initial project application development; scoring and decision making processes by the LAG; and the adequacy of the framework for monitoring the performance of grant recipients.

6. Review of the LEADER administration grant claim processes, to include adequacy of:

- a. information and evidence compilation;
- b. records management systems;
- c. separation of duties;
- d. compliance with grant claim regulations;
- e. effectiveness of communications between the Accountable Body and the Scottish Government team.

A sample of completed grant files on the LARCS system – (Local Action in Rural Communities System) will be reviewed as part of the audit to check for compliance with the LEADER guidance.

### Exclusions and Limitations

No specific exclusions.

### **Potential Risks**

Potential risks include:

- non-compliance with the EU monitoring requirements resulting in fines, non-payment of grant, or reputational damage;
- grants are awarded to organisations that fail to meet their planned objectives; and
- lack of effective controls may lead to errors or irregularities occurring.

### **Audit Approach**

The audit approach consists of:

- fact finding interviews with key employees;
- review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;
- interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;
- draft and final reporting; and
- presentation of the final report to Midlothian Council's Audit Committee; and
- submission of the final report to the LAG and the Scottish Government.

## Midlothian Council - Internal Audit Report – Tyne Esk LEADER

---

The Internal Audit Report will be expected to inform:

- the LAG in its responsibility for delivering the Tyne Esk LEADER programme;
- Midlothian Council in its role as Accountable Body and in delivering the SLA; and
- the Scottish Government in their management of the SLA.

### **Timescales & Reporting**

The Audit will commence in July 2017 and is anticipated to be reported to the December 2017 Audit Committee.

### **Information Requirements**

Access to all relevant systems, documentation and employees.

### **Audit Resource**

<b>Auditor:</b>	<b>James Polanski</b>	<b>0131 270 5646</b>
<b>Reviewer:</b>	<b>Elaine Greaves</b>	<b>0131 271 3285</b>