

The Highland Council
Planning, Development And Infrastructure Committee

18 February 2014

Agenda Item	24
Report No	PDI 21/15

EFF Axis 4 Internal Audit Report & Programme Update

Report by Director of Development and Infrastructure

Summary

This paper provides a brief update of the progress of the Axis 4 European Fisheries Fund (EFF) in Highland and details the outcome of a recent Internal Audit report presented to Audit & Scrutiny Committee on 20th November 2014. Committee is invited to:

- note the good progress being made on the delivery of the EFF Axis 4 Fund in Highland; and
- note the findings, conclusions and recommendations of the Internal Audit Report and progress against the agreed action plan

1. EFF Programme Update

- 1.1 Axis 4 of the European Fisheries Fund (EFF) can be used to support a wide range of projects which contribute to the sustainable development and improvement of the quality of life in fisheries dependant areas. For example, projects which add value to fisheries' products, provide training, or economic diversification are all potentially eligible.
- 1.2 The programme closed for applications on 30 June 2014. The Fisheries Local Action Group (FLAG) responsible for administering the fund has approved 14 projects securing £398,653.45 of EFF grant enabling a total investment of £677,265.98. Of the 14 projects supported by the FLAG, 5 are now complete and 9 currently 'live'.
- 1.3 All projects approved under the Programme must be completed by the end of April 2015 at the very latest, with the final date for drawdown of approved funds being May 2015.

2. Internal Audit

- 2.1 During Q3 of 2014/2015, Highland Council's Internal Audit assessed the administration of EFF Axis 4 for the period 1/7/13 to 30/6/14. The summary and action plan are at **Appendix 1**.
- 2.2 The objective of the review was to ensure that:
- the obligations in the Service Level Agreement have been adhered to by Council Officers;

- the projects funded by the Highland EFF Axis 4 Programme comply with the requirements of the Service Level Agreement; and
- the agreed actions arising from the previous audit report have been satisfactorily implemented by Management.

3 Main Findings

3.1 Brief summary of main findings:

- the obligations in the Service Level Agreement have been adhered to by Council Officers:
This objective was substantially achieved. Similar to last year's report, no irregularities have been found and agreed procedures had been followed. However, minor issues have been found whereby an SLA performance target of advising Marine Scotland of grant awards within 2 weeks of the awards being made had not been met for 2 of the 4 projects examined. Also, the Highland Council had not processed a claim for reimbursement within 6 weeks of receipt and was almost 2 weeks late.
- the projects funded by the Highland EFF Axis 4 Programme comply with the requirements of the Service Level Agreement:
This objective was substantially achieved. All project files reviewed had declarations of interest recorded correctly in the FLAG minutes examined with one exception where an application had been submitted by Highland Council Harbours. The FLAG was chaired by a Councillor who declared a non-financial interest in the project as required by the Councillors Code of Conduct, although the SLA rules state that "Application for Funding under EFF Axis 4 may be received by the FLAG from the Local Authority. The application will be assessed in the usual way by the FLAG members who are not associated with that Local Authority." Several minor administrative issues were also noted, full details are provided in Appendix 1
- the agreed actions arising from the previous audit report have been satisfactorily implemented by Management.
This objective was substantially achieved. The majority of agreed actions arising from the previous audit report have been satisfactorily implemented. It is suggested further improvements could be made regarding the secure storage of project files.

3.2 The audit concluded that the programme is assessing projects correctly, however, there are a number of relatively minor issues that have been found suggesting that the process could be improved.

3.3 The audit report has been given the overall opinion of 'reasonable' assurance, although findings from audit suggest that if the recommendations are put into place, along with suggested administrative, managerial and quality checks, then it would enable a higher level opinion to be given.

4 Recommendations – Audit Report Action plan

4.1 The Internal Audit report contains seven recommendations, five medium grade and two low grade. All agreed actions were to be complete by 19 December 2014
Appendix 1.

4.2 All recommendations have been completed.

5 Implications

5.1 Resource

There are no additional resource implications arising from this report.

5.2 Legal

There are no additional legal implications.

5.3 Equality

There are no additional equality implications arising from this report. As part of the assessment process, each project was assessed for its impact on equal opportunities.

5.4 Climate Change/Carbon Clever

There are no climate change or carbon clever implications attached to this report.

5.5 Risk

The D&I Service, together with the Highland EFF team will continue to work closely with Internal Audit and Marine Scotland to ensure the Programme is delivered in accordance with the governing European and Scottish Regulations and that there is no disallowance of grant.

5.6 Gaelic

There are no Gaelic implications arising from this report

5.7 Rural

There are no rural implications arising from this report.

Recommendation

The Members are asked to:

- (a) note the good progress being made on the delivery of the EFF Axis 4 Fund in Highland; and
- (b) note the findings, conclusions and recommendations of the Internal Audit Report and progress against the agreed action plan

Designation: Director of Development and Infrastructure
Date: 2 February 2015
Author: Nicole Wallace/Sarah Lamb

AUDIT REPORT SUMMARY

Report Title

Development and Infrastructure Service: AXIS 4 – European Fisheries Funding Project

Report No.	Type of Audit	Issue Date	
HEC04/002	Systems	Draft Report	12/09/14
		Final Report	01/10/14

1. Introduction

- 1.1 This audit was undertaken as part of the 2014/15 Audit Plan and assessed the administration of the European Fisheries Fund (EFF) Axis 4 Programme. The audit is a requirement of the Service Level Agreement (SLA) between Marine Scotland and the Council and covers the period 01/07/13 to 30/06/14. This is the second audit of the programme.
- 1.2 The EFF Axis 4 Programme in Scotland is aimed at providing funding and support to local Scottish fishing communities, affected by decline, to sustainably develop these areas. Funding from the EU is centrally distributed by Marine Scotland to eligible areas. With the exception of the Inverness Settlement Development Area and part of the Highland Council area within the Cairngorms National Park the whole of the Highland Council area is eligible for this funding. The overall administration of the funding is by the Fisheries Local Action Group (FLAG).
- 1.3 The FLAG began to accept project applications in spring 2012, with all project applications to be decided by 30/06/14, following an extension by Marine Scotland. The programme will then run approved projects until its official close of 31/10/15. Marine Scotland awarded the FLAG an additional £124,228 in November 2013. The total value of the Highland EFF Axis 4 Programme is £715,029.

2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 The obligations in the Service Level Agreement have been adhered to by Council Officers.
- 2.2 The projects funded by the Highland EFF Axis 4 Programme comply with the requirements of the Service Level Agreement.
- 2.3 The agreed actions arising from the previous audit report have been satisfactorily implemented by Management.

3. Main Findings

The main findings of the review, referenced to the above review objectives, are as follows:

- 3.1 This objective was substantially achieved. Similar to last year's report no irregularities have been found, a spreadsheet database has been created to record the project's claims, a separate accounting code has been set up for the programme, standard forms and guidance have been provided by Marine Scotland to be used in the project application, decision and approval processes, and as required, the Council is submitting expenditure information to Marine Scotland within 20 calendar days from the end of the quarter.

However, SLA performance targets of advising Marine Scotland of awards of grant within 2 weeks of the award being made were not met for 2 of the 4 projects examined. One confirmation was a day late, with the other over 3 months late. Also, for the only claim checked, the Highland Council had not processed the claim for reimbursement within 6 weeks of receipt and was almost 2 weeks late.

A number of SLA requirements such as setting up a Data Sharing Protocol and obtaining Marine Scotland's confirmation of Highland Council procedures could not be resolved. Marine Scotland has not responded regarding the Data Sharing Protocol and declined to

provide confirmation regarding Highland Council procedures, contrary to their own SLA.

3.2 This objective was substantially achieved. All the project files reviewed had declarations of interest recorded correctly in the FLAG minutes examined except for the Pontoon Installation at Elgol Harbour. Marine Scotland was provided with copies of project application forms and award letters, as required by the SLA.

The HEFF/012 – Lybster Heritage Trust project (Yawl Boat Shed) had a number of issues found during the audit:

- The construction costs were increased by £250 without full explanation;
- There is an error with a total on one of the claim documents. While this has not affected the claim, there should be a file note to demonstrate that this has been noted;
- The claim form front page was incomplete because the Administrative Assistant believed this section would be completed by Marine Scotland;
- A change request form was signed by the Administrative Assistant because the EFF Regional Development Officer was not in the office to physically sign the form;
- There is an issue with change request forms, claims checklists and file notes for all projects where officers are required to sign these documents but are not required to print their names, which is required for some officers to identify who has signed the form;
- Only draft minutes recording project approval were in the project files for this project and also HEFF/016 - Highland Council Harbours (Pontoon Installation - Elgol Harbour) and HEFF/017 - Mallaig Harbour Authority (Loyal Slipway).

The HEFF/016 – Highland Council Harbours (Pontoon Installation - Elgol Harbour) project had an issue with the letter confirming that the project is not a statutory duty of the Council, as the officer signing the letter also signed the project application form. Also, the FLAG approving the project was chaired by a Councillor, where as the SLA rules state that *“Application for Funding under EFF Axis 4 may be received by the FLAG from the Local Authority. The application will be assessed in the usual way by the FLAG members who are not associated with that Local Authority.”*

To confirm the eligibility of HEFF/017 – Mallaig Harbour Authority (Loyal Slipway) more information should be added to the project form.

3.3 This objective was substantially achieved. The majority of agreed actions arising from the previous audit report have been satisfactorily implemented including update of the Highland FLAG procedures which are used by Council staff.

However, while project files are kept in a locked cabinet, the key for the cabinet is held in a nearby unlocked drawer when not in use. Section 3.1 (above) details the issues in complying with SLA requirements for a data sharing protocol and confirmation of Highland Council procedures.

The publicity requirements provided to projects contradict the EU publicity requirements in not requiring the EU emblem on all publicity.

Also, while the recommendation from the last audit to include information from a withdrawn application in the current file of project HEFF/003 – Highland Council (Helmsdale Harbour 2013) has been complied with, from the file review during this audit it was clear that an explanation is required to be held on file to clarify the reason for its inclusion.

4. Conclusion

4.1 Overall the programme is assessing projects correctly; however, there are a number of relatively minor issues that have been found during this audit which suggest that this process could be improved. An issue during the year with the procurement of a member of staff in a project led to the project funding (£3,545) being withdrawn and this project was subsequently funded by the Council. This procurement issue had not been identified when previously processing claims. This, along with the findings of this report, suggests that staff should be reminded of the SLA requirements and further administrative, managerial and quality checks should be put in place.

- 4.2 Also, issues including the requirement for further information to be added to the project file showing eligibility of the Mallaig harbour project suggest staff, while supporting projects and their administrators, need to be more critical in reviewing projects to ensure compliance with the SLA, EU Regulations and relevant procedures.
- 4.3 The communication difficulty with Marine Scotland, particularly where they have not provided assistance to allow the Council to comply with their SLA, is disappointing.
- 4.4 While the audit report has been given the opinion of reasonable assurance, the findings from the audit suggest that if the above recommendations are put into place along with the suggested administrative, managerial and quality checks, then it would enable a higher level opinion to be given.
- 4.5 As a result, there are 5 medium grade and 2 low grade recommendations in this report, which have been accepted by management. All the agreed actions will be completed by 19/12/14.

5. Audit Opinion

- 5.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Development and Infrastructure Service: **AXIS 4 – European Fisheries Funding Project**

HEC04/002

The Action Plan contains **7** recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.

Important issues that managers should address and will benefit the Organisation if implemented.

Minor issues that are not critical but managers should address.

Priority	Number
High	0
Medium	5
Low	2
	7

Total recommendations

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1.1	Medium	Of the 4 projects in the audit's sample only 2 awards were notified to Marine Scotland within the 2 week timescale. The other 2 were 1 (HEFF/012 - Lybster Heritage Trust) and over 3 months beyond the target (HEFF/011 - Applecross Historical Society). Only one of the projects in the audit sample had submitted a claim (HEFF/012 - Lybster Heritage Trust). The target of processing claims within 6 weeks of receipt was not met and this was delayed for almost another fortnight before payment was made.	Axis 4 EFF staff should be reminded of the SLA performance requirements in Appendix B and the EFF Regional Development Officer should ensure these are complied with.	Axis 4 EFF staff will be reminded of the SLA performance requirements in Appendix B. Periodic performance checks shall be made to ensure compliance.	EFF Regional Development Officer/Admin Assistant	01/11/14
3.2.1	Medium	<u>HEFF/012 – Lybster Heritage Trust (Yawl Boat Shed)</u> The following issues were found during the project file review: (1) Costs Change The construction costs were increased by £250 but not fully explained in the project file.	(1) The EFF Regional Development Officer should go back to the applicant to request more information demonstrating the price change and this should be included in the project file.	Further information to be requested from the project to further explain increase to construction costs and include in project file.	EFF Regional Development Officer	01/11/14

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Report Title

Report No.

Development and Infrastructure Service: AXIS 4 – European Fisheries Funding Project

HEC04/002

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.1 (cont'd)		(2) Minor issues				
		<p>(i) The total listed in part of the claim form states £9,652 but should be £9,552.</p> <p>(ii) A section of the claim form was incomplete.</p>	<p>(i) The EFF Regional Development Officer should add a file note explaining the error.</p> <p>(ii) For all files affected the EFF Regional Development Officer should:</p> <ul style="list-style-type: none"> - Determine, in discussion with Marine Scotland, what parts of the form should be completed, and which parts are not applicable as they relate to another EU Axis Programme, - Add a file note clearly stating that the section was completed after the date the claim was processed, - Add a standard file note to these files with an explanation regarding the misunderstanding leading to the form being left blank. 	<p>File note to be added with explanation of error.</p> <p>Discussion with Marine Scotland which parts of the form should be completed to take place. File note to be added to state that the section has been completed after the date the claim was processed along with explanation regarding why this section was previously incomplete.</p>	<p>EFF Regional Development Officer</p> <p>EFF Regional Development Officer/Admin Assistant</p>	<p>01/11/14</p> <p>19/12/14</p>

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.1 (cont'd)		(iii) The Change Request Form (CRF) on file was signed by an Admin Officer instead of a Development Officer.	(iii) A file note should be added to the file, detailing the authorisation by an Administration Officer rather than a Development Officer. In future, if the EFF Regional Development Officer is not able to sign a CRF, then they should provide authorisation to the Administration Assistant by email, which should be held with the CRF confirming its authorisation.	File note to be added regarding authorisation of CRF.	EFF Regional Development Officer	01/11/14
		(iv) The change request form does not require the Council officer approving the form to print their name along with their signature, there is also the same issue for the claims checklist and file notes.	(iv) Printed names should be added to all files and the requirement to print names when signing documents should be included in guidance for staff.	Where applicable, section for printed name to be added to form templates. Requirement to print name when signing documents to be added to guidance document.	EFF Regional Development Officer	19/12/14
		(v) The minutes, recording project approval held in the project file, are draft minutes and not finalised minutes. This issue was also found in projects HEFF/016 and HEFF/017.	(v) The finalised FLAG minutes recording the project approval should be put into the relevant project files.	Finalised minutes to be added to project file.	EFF Regional Development Officer	01/11/14

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Development and Infrastructure Service: AXIS 4 – European Fisheries Funding Project

HEC04/002

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.2	Medium	<p><u>HEFF/016 – Highland Council Harbours (Pontoon Installation - Elgol Harbour)</u></p> <p>(i) The letter held on file confirming that this project is not a statutory duty of the Council was signed by the Harbours Manager, who, as the application signatory, is not deemed to be independent.</p> <p>(ii) A Councillor is the chair of the FLAG and was permitted to participate in FLAG discussions regarding a Council project contrary to SLA requirements on independence.</p>	<p>(i) The EFF Regional Development Officer should request alternative assurance from the relevant Council officer independent of the project.</p> <p>(ii) The EFF Regional Development Officer should contact Marine Scotland regarding the authorisation of this project. For all future Highland Council projects, no Council Members should be involved in the assessment of Local Authority applications. This requirement should be reiterated to Councillors who are FLAG members.</p>	<p>Alternative assurance to be requested from the relevant Council officer independent of the project.</p> <p>Contact Marine Scotland regarding the authorisation of this project. FLAG to be reminded of SLA requirements when considering projects where applicant is Highland Council.</p>	EFF Regional Development Officer	19/12/14
					EFF Regional Development Officer	19/12/14
3.2.3	Medium	<p><u>HEFF/017 – Mallaig Harbour Authority (Mallaig Shoreside Promenade)</u></p> <p>While the actions of the project are clear, more information regarding the eligibility of the project needs to be added to the file.</p>	<p>The EFF Regional Development Officer should provide more information on potential usage of the slipway and then link these to the measures demonstrating eligibility.</p>	<p>Information to be added to the file to further explain eligibility and potential usage of slipway.</p>	EFF Regional Development Officer	19/12/14

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Development and Infrastructure Service: AXIS 4 – European Fisheries Funding Project

HEC04/002

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3.2	Low	The keys for the filing cabinets, holding project files, are kept in an unlocked draw yards away when not in use.	The cabinet keys should be taken home by an officer, or held in a locked cabinet on site overnight.	Ensure cabinet keys are held in locked cabinet on site overnight.	EFF Regional Development Officer	01/11/14
3.3.4	Medium	<u>Publicity</u> The publicity requirements sent to successful projects only asks that the EU emblem be included in all publicity 'where possible', contrary to EU regulations.	The EFF Regional Development Officer should change the guidance note and contact any organisations this would be relevant to.	Guidance documents to be updated and ensure any organisation to which the publicity requirements may be relevant to are contacted.	EFF Regional Development Officer	19/12/14
3.3.5	Low	The required feasibility proposal and quote was added to the project file as required from the last audit report; however they were not clearly identified, nor was there an explanation of the reason for its inclusion.	The documents should be more clearly identified in the project file to explain the additional information they provide.	File note to be added to explain why information from the withdrawn application has held on project file.	EFF Regional Development Officer	19/12/14