

The Highland Council
Planning, Development and Infrastructure Committee
11 May 2016

Agenda Item	18
Report No	PDI 35/16

EFF Axis 4 Programme Update & Internal Audit Report

Report by the Director of Development and Infrastructure

Summary

This paper provides a brief update on the closure of the Axis 4 European Fisheries Fund (EFF) in Highland and the outcome of a recent Internal Audit report, and update on the launch of the European Maritime & Fisheries Fund (EMFF). Committee is invited to:

- note the funding delivered under EFF Axis 4 in Highland and programme closure;
- note the findings and conclusions of the Internal Audit Report; and
- note the progress on the forthcoming European Maritime and Fisheries Fund (EMFF).

1. EFF Axis 4 Programme Closure

- 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.
- 1.2 The Fisheries Local Action Group (FLAG) in Highland is responsible for administering the fund and approved 13 projects, securing £445,930.11 of EFF grant and generating a total investment of £744,818.77. The programme closed to applications on the 30th June 2014. The final project re-claim was submitted by Highland Council to Marine Scotland on 4th November 2015 marking the financial closure of the programme.
- 1.3 The FLAG initially committed 100% of the Axis 4 budget £482,705.53, however a project withdrew from the funding process in November 2014 resulting in an underspend of £36,775.42. Following a request to Marine Scotland, this project underspend was made available to Highland Council to cover administration costs for the programme closure period.
- 1.4 Projects supported in Highland included:
- harbour infrastructure improvements - infrastructure providing additional berthing at Wick, Kyle of Lochalsh and Helmsdale. New promenade walkway and slipway upgade at Mallaig harbour. Amenities upgrades at Scrabster and Kyle of Lochalsh;
 - feasibility studies supporting economic diversification at Helmsdale and Staffin;
 - fishing heritage interpretation projects at Lybster, Applecross and Gairloch;
 - training courses provided in maritime skills and entrepreneurship in

- Lochinver; and
- adding value to fisheries products through an East Coast seafood trail initiative promoting local seafood.

Project outputs include 17.35 jobs created and 5 safeguarded, 65 training courses delivered and 122 individuals trained, gaining new skills or re-skilled.

2. Internal Audit

- 2.1 During Q3 of 2015/2016, Highland Council's Internal Audit assessed the administration of EFF Axis 4 for the period 1st July 2014 to 2nd November 2015. This is the final report for the Axis 4 Programme. The report was presented to Audit and Scrutiny Committee on 24th March 2016 and approved. The full report is appended (**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:
- (1) This objective was substantially achieved. Similar to last year's report, no irregularities have been found and agreed procedures had been followed. Only one minor issue had 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 1 of the projects examined.
 - (2) This objective was substantially achieved as the 3 projects reviewed complied with the requirements of the SLA.
 - (3) This objective was fully achieved as all of the management agreed actions have been implemented. The previous audit contained 7 recommendations (5 were graded medium and 2 low).
- 3.2 Following implementation of previous audit recommendations, it has been concluded that the EFF Axis 4 programme is being administered accurately. The reviews of project files found that, other than minor issues with file completion, they were complete and accurate. Therefore there have been no recommendations made within the audit report.
- 3.3 The audit report has given the overall opinion of 'Full Assurance'.

4 European Maritime & Fisheries Fund - Update

- 4.1 The EMFF is the fund for the EU's maritime and fisheries policies for 2014-2020. EMFF will provide support to projects which deliver sustainable economic growth in the sea fisheries and aquaculture sectors, and for communities to deliver economic benefits during the transition phase of the Common Fisheries Policy reform.
- 4.2 Following the approval of the UK Operational Programme on 3rd December 2015, the programme launched on 18th January 2016 although opening and closing dates for application rounds have not yet been announced.
- 4.3 Similar to EFF, there will be a budget allocated to FLAGs to support Community-Led Local Development (CLLD), however there will be several notable changes to how the funding will be administered under EMFF:
- the Local Authority is no longer required to act as the Accountable Body for the fund;
 - all financial responsibility will now lie with Marine Scotland (Scottish Government) as the designated Intermediate Body for Scotland; and
 - the Local Authority is no longer required to provide the public co-funding element, this will now be provided for by Marine Scotland.
- 4.4 The FLAG will be responsible for the day to day operations, including the animation and promotion, capacity building and co-operation between fisheries actors and other local private and public stakeholders. FLAGs will consider project applications and make recommendation of award to Marine Scotland who will undertake the final project approval and issue of grant award letter.
- 4.5 Following an EU recommendation to reduce the number FLAGs in Scotland, Marine Scotland facilitated discussion between groups to determine where partnerships could be made to deliver the new CLLD programme. A number of FLAGs have agreed to amalgamate reducing the total number of Scottish FLAGs from 12 to 8.
- 4.6 The Highland FLAG has agreed in principle to partner with Moray FLAG with Highland Council acting as Lead Partner. Work is ongoing to develop an Operational Plan which will act as a working agreement for the Highland & Moray FLAG with the aim to launch in the 1st quarter of 2016. Highland and Moray FLAG have been given an indicative budget of £1,006,000.

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 Equalities – 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 Development and Infrastructure 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 implications – The new EMFF programme will assist rural areas in Highland.

Recommendation

The Members are asked to:

- note the funding delivered under EFF Axis 4 Fund in Highland and programme closure;
- note the findings and conclusions of the Internal Audit Report; and
- note the progress on forthcoming European Maritime and Fisheries Fund (EMFF).

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Date: 13/04/2016

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**INTERNAL AUDIT
FINAL REPORT**

DEVELOPMENT & INFRASTRUCTURE SERVICE

EFF PROGRAMME 2014-15

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1. INTRODUCTION

This audit was undertaken as part of the 2015/16 Audit Plan and was the third and final audit assessing the administration of the European Fisheries Fund (EFF) Axis 4 Programme. The final programme claim to Marine Scotland was submitted on 04/11/15. The audit is a requirement of the Service Level Agreement (SLA) between Marine Scotland and the Council and covers the period 01/07/14 to 05/11/15.

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).

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. Marine Scotland awarded the FLAG an additional £124,228 in November 2013. The total value of the Highland EFF Axis 4 Programme was £715,029. The programme administered approved projects until its official close on 31/10/15.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

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

3. SCOPE, METHOD AND COVERAGE

This was the final review of the current European Fisheries Fund – Axis 4 programme and it reviewed compliance with the SLA in place between the Council and the Scottish Government. The audit also examined a sample of projects, which have not been reviewed in the previous 2 audits, with approved funding ranging from £28,815 to £259,013. The 3 remaining projects with the largest funding were chosen for review. Therefore 10 of the 13 completed projects have been reviewed in audits during the current programme. The audit also followed-up the actions taken by management in response to the audit recommendations in the 2014 EFF programme audit report.

The projects reviewed were:

Project Reference	Project Name	Applicant	Location	Total Project Costs	Funding sought from FLAG	FLAG % towards total project costs	EFF	HC	Other Public Sector Funds
HEFF/008	Kyle Pontoons	Kyle & Lochalsh Community Trust	Lochalsh	£ 297,426.00	£ 259,013.70	87%	£ 200,762.55	£ 58,251.15	£ 8,669.70
HEFF/009	Mallaig Shoreside Promenade	Mallaig Harbour Authority	Mallaig	£ 173,224.06	£ 112,603.33	65%	£ 90,439.27	£ 22,164.06	£ 7,982.37
HEFF/018	Scrabster Harbour Amenities Upgrade	Scrabster Harbour Trust	Scrabster	£ 38,420.55	£ 28,815.41	75%	£ 21,611.56	£ 7,203.85	-

4. MAIN FINDINGS

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

4.1 Service Level Agreement Compliance

This objective was substantially achieved. The obligations in the SLA were assessed and this showed:

- There are procedures in place to notify Marine Scotland as soon as reasonably practical about any suspected breaches, frauds, irregularities or breaches of contractual obligations concerned with scheme claims that are likely to impact adversely on the EU budget;
- There are procedures to ensure that the required retention period will be adhered to;
- A spreadsheet database has been created to record project 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
- The Council is submitting expenditure information to Marine Scotland as requested.

There was 1 example of non-compliance with the SLA's performance targets (Kyle Pontoons) where the Council did not advise Marine Scotland of awards of grant within 2 weeks of this award being made.

4.2 Project Compliance

This objective was substantially achieved as the 3 projects reviewed complied with the requirements of the SLA.

The eligibility of each project was assessed against the eligible measures of EFF Axis 4 (EU Reg 1198/2006 – chapter IV and article 44), the Local Fisheries Development Strategy and the associated EFF Axis 4 Business Plan. Checks were also carried out to ensure that:

- Declarations of interest had been recorded when the project was assessed by the FLAG;
- Marine Scotland had been provided with copies of the project application form and award letter; and
- The most recent claims from each project had the supporting documentation on file, the amount claimed agreed to the amount reclaimed from Marine Scotland, and the expenditure was in accordance with the community and national rules.

These were found to be satisfactory except for 1 project where the documents were sent at a later date, which was prompted by a previous audit recommendation. Also, 1 project (Mallaig Shoreside Promenade) was missing some documentation but this was put on file during the audit review.

4.3 Audit Report 2014 Follow-up

This objective was fully achieved as all of the management agreed actions have been implemented. The previous audit report contained 7 recommendations (5 were graded medium and 2 low) which consisted of a number of different management agreed actions.

The first medium grade recommendation related to missed performance targets. The second, third and fourth recommendations (all graded medium) related to project file issues found during a review of 4 projects. The fifth low grade recommendation related to holding keys in an unlocked drawer when not in use. The sixth recommendation (graded medium) related to general publicity project

advice. The seventh recommendation (graded low) related to a project file issue that had been reported in the previous year's audit report.

5. CONCLUSION

Following implementation of previous audit recommendations, the EFF Axis 4 programme is being administered accurately. The reviews of project files found that, other than minor issues with file completion, they were complete and accurate. Therefore there have been no recommendations made in this report.

6. AUDIT OPINION

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 **Full Assurance** can be given in that the levels of assurance and their definitions can be found at Appendix 1.

Internal Audit Opinion

Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is generally a sound system, there are minor areas of weakness 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.
Reasonable Assurance	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.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.