

HIGHLAND COUNCIL

Committee: Audit & Scrutiny Committee

Date: 23rd November 2017

Report Title: **Internal Audit Reviews and Progress Report – 16/09/17 – 14/11/17**

Report By: Corporate Audit Manager

1. Purpose/Executive Summary

- 1.1 This report provides details of the final reports issued since the previous meeting of this Committee, work in progress and other information relevant to the operation of the Internal Audit section.

2. Recommendations

- 2.1 The Committee is asked to:
- i. consider the Final Reports referred to in Section 3.1 to the report;
 - ii. note the current work of the Internal Audit Section outlined at section 4, and progress against the plan and the performance information provided at section 5.

3. Audit Reports

3.1 There have been 3 final reports issued in this period as referred to below:

Service	Subject	Opinion
Development & Infrastructure Service	Renewable Heat Incentive Income Scheme - follow up	Full Assurance
Care & Learning Service/ Development & Infrastructure Service	Cromarty Primary School – Review of Refurbishment and Extension Project	Limited Assurance
Development & Infrastructure Service	Leader Programme 2016/17	Substantial Assurance

Each report contains an audit opinion based upon the work performed in respect of the subject under review. The five audit opinions are set out as follows:

- (i) **Full Assurance:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- (ii) **Substantial Assurance:** While there is a 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.
- (iii) **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.
- (iv) **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.
- (v) **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.

4. Other Work

4.1 In addition to the reports referred to at section 3.1 above, the Section has been involved in a variety of other work which is summarised below:

(i) Work for other Boards, Committees or Organisations

Audit work has been undertaken on behalf of the Valuation Joint Board. In addition, as part of a three year agreement, an ICT audit was undertaken for Western Isles Council.

(ii) Certification of grant claims

Work was undertaken for HITRANS for the SPARA 2020 project during quarter 2.

(iii) Corporate Fraud activity

As reported to the last Committee meeting, 3 new referrals were received regarding potential misuse of staff resources, plant, materials and equipment. These

investigations are still ongoing but the indications are that 1 of these is likely to be a significant investigation. Should this pattern of referrals continue this may impact upon completion of the 2017/18 audit plan if it is necessary to divert audit staff from planned work to assist with fraud investigations.

In additions to the investigations detailed above 1 council house was recovered during quarter 2 and assistance has been provided to management regarding a suspected fraudulent housing grant application.

(iv) Other investigations/ work

In the last Committee report reference was made to referrals from management relating to concerns about particular financial transactions and the appropriateness of expenditure. Appropriate reports have been provided to management on these matters to address the concerns identified.

Following a member of the Audit team querying the bank charges on a secondary School's School Fund records, the Head Teacher later stated that £3,700 had been refunded by the bank.

5. Progress against the 2017/18 audit plan and performance information

5.1 Details of progress against the 2017/18 audit plan (as at 14/11/17) are provided at **Appendix 1**.

5.2 Performance information for quarters 1 and 2 is provided below.

Category	Performance Indicator	Target	2017/18 Actuals			
			Q1	Q2	Q3	Q4
Quality						
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires (CAQ)	75	74	86	-	-
	(ii) % of Client Audit Questionnaires returned	70	100	100	-	-
Business Processes						
Timeliness of Final Report	(iii) % of draft reports responded to by client within 20 days of issue	85	50	100	-	-
	(iv) % of final reports issued within 10 days of receipt of management response	90	100	100	-	-

The support of the Chief Executive in obtaining a timely response to draft audit reports has resulted in all being provided within the specified timescales.

6. Implications

6.1 Resource – none

Legal – none

Community (Equality, Poverty and Rural) – none

Climate Change/ Carbon Clever – none

Risk – the risks and any associated system or control weaknesses identified as a result of any corporate fraud investigations will be reviewed and recommendations made for

improvement.

Gaelic – none.

Designation: Corporate Audit Manager

Date: 14th November 2017

Author: Donna Sutherland

Background Papers:

Internal Audit – progress against 2017/18 audit plan

Service	Audit Ref and Name	Priority	Planned Days	Status by Quarter			
				Qtr 1	Qtr 2	Qtr 3 (to 14/11/17)	Qtr 4
Care & Learning	HAA03/001 - Review of the administration and payments in respect of Fostering, Adoption and Kinship Care	Medium	30	Being planned	In progress	In progress	
Care & Learning	HAB01/008.bf - Review of Financial Procedures operated in Schools	Core/ Critical/ Commitment	3	FR issued			
Care & Learning	HAB01/009.bf - Network Capacity Management in Schools	Core/ Critical/ Commitment	1	Completed			
Care & Learning	HAB01/011 - Schools	High	30	Not started	Being planned	In progress	
Care & Learning	HAB01/01 – Schools – Use of Systems	High	30	Not started	Not started	Not started	
Care & Learning	HAC02/001.bf - Commissioned HLH Services	High	5	DR issued	FR issued		
Care & Learning	HAB03/001 - Review of PPP arrangements	Medium	30	Not started	In progress	In progress	
Care & Learning	HAC06/002 - Out of Hours Service	High	20	Being planned	In progress	DR issued	
Care & Learning	HAD02/002.bf - Catering	High	18	In progress	In progress	In progress	
Community Services	HCA02/004.bf - Replacement heating systems	High	13	In progress	In progress	DR issued	
Community Services	HCC03/004 - Fleet Management arrangements	High	35	Not started	Not started	Not started	
Community Services	HCC07/001 - Winter Maintenance	High	30	Not started	Not started	Not started	
Community Services	HCD01/002 - Review of Mobile and Flexible Working arrangements	Medium	25	Not started	Not started	Not started	
Community Services	HCD06/001.bf - Review of the control of overtime within Community Services	High	10	In progress	In progress	In progress	
Community Services	HCD07/001.bf - Review of Burials and Cremations	High	1	In progress	FR issued		
Corporate Resources	HDA02/003 - Review of the use of Integra	High	20	Not started	Not started	Not started	

Service	Audit Ref and Name	Priority	Planned Days	Status by Quarter			
				Qtr 1	Qtr 2	Qtr 3	Qtr 4
Corporate Resources	HBA01/007.bf - Review of ICT projects	Core/ Critical/ Commitment	19	Not started	Not started	In progress	
Corporate Resources	HBA01/011 - Review of Information Management arrangements	Core/ Critical/ Commitment	30	Not started	Not started	Not started	
Corporate Resources	HBA01/012 - ICT Assurances	Core/ Critical/ Commitment	15	In progress	Completed		
Corporate Resources	HBB04/002 - Compliance with Health, Safety & Well-being policies and procedures	High	25	Not started	Not started	Not started	
Corporate Resources	HBC03/001 - Licensing	Medium	25	Not started	Audit c/f to next year		
Corporate Resources	HDA05/001 - Review of VAT arrangements	High	15	Not started	Not started	Being planned	
Corporate Resources	HDA06/002 - Review of self-serve payroll processes	High	15	Not started	Not started	Not started	
Corporate Resources	HDA08/009 - Pension Fund Statement of Internal Control 2016-17	Core/ Critical/ Commitment	10	Completed			
Corporate Resources	HDA08/010 - Pension Fund Payments	Core/ Critical/ Commitment	15	Not started	Being planned	In progress	
Corporate Resources	HDB05/004 - Income Systems	High	30	Not started	Not started	Not started	
Corporate Resources	HDC03/004 - Statement of Internal Control 2016-17	Core/ Critical/ Commitment	25	Completed			
Corporate Resources	HDC06/011.bf - Review of Counter Fraud Arrangements	High	14	Not started	Not started	Not started	
Development & Infrastructure	HEA01/001.bf - Planning and Building Control fees and charges	Medium	1	FR issued			
Development & Infrastructure	HEA05/003 - LEADER Programme 2016-17	Core/ Critical/ Commitment	30	Not started	In progress	FR issued	
Development & Infrastructure	HED02/003.bf - Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2015-16	Core/ Critical/ Commitment	1	FR issued			
Development & Infrastructure	HED02/005 - Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2016-17	Core/ Critical/ Commitment	20	Not started	In progress	In progress	

Service	Audit Ref and Name	Priority	Planned Days	Status by Quarter			
				Qtr 1	Qtr 2	Qtr 3	Qtr 4
Development & Infrastructure	HED01/004.bf - Cromarty Primary School	High	1	In progress	In progress	FR issued	
Development & Infrastructure	HED02/006 - Renewable Heat Incentive Income Scheme - follow up	Medium	10	Not started	In progress	FR issued	
Development & Infrastructure	HED04/004.bf - Repairs and Maintenance in Schools	High	28	In progress	FR issued		
Development & Infrastructure	HEE02/001 - Affordable housing	Medium	30	Not started	Being planned	In progress	
Development & Infrastructure	HEE03/002 - Rental Income - follow up	Medium	10	Not started	In progress	In progress	
Development & Infrastructure	HEE04/001 - Developer's Contributions	Medium	20	Not started	Not started	In progress	

Key:

DR – Draft audit report

FR – Final audit report

Internal Audit Final Report

Development & Infrastructure Service

Renewable Heat Incentive Income Scheme - follow up

Distribution:

Director of Development & Infrastructure
Head of Property & Facilities Management, Development and Infrastructure Service
Energy & Sustainability Manager, Development & Infrastructure Service

Report Ref: HED02/006
Draft Date: 13/10/17
Final Date: 01/11/17

1. Introduction

- 1.1 The Non-Domestic Renewable Heat Incentive Income (RHI) scheme is designed to increase the uptake of renewable heat technologies and reduce carbon emissions. It is administered by Ofgem, who make payments on a quarterly basis based on meter readings submitted by the Highland Council for eligible sites.
- 1.2 The income target of £1 million has not been fully achieved, at first due to a range of data and operational issues. There has been steady and significant improvement with £983,079 of income received in 2016/17.
- 1.3 An audit report (ref HED02/004) on the RHI scheme income was issued on 20/09/16. The report concluded that the shortfall in income was attributable to a number of factors resulting in issues with the quality of data submitted to Ofgem and ultimately delays in processing and/ or loss of income to the Council. When this report was considered by the Audit & Scrutiny Committee on 29/09/16, it was agreed that a follow-up would be undertaken. The objective of this follow-up audit is to ensure that the 3 management agreed actions have been satisfactorily implemented.

2. Main Findings

- 2.1 *Monthly meetings are held to review the income and track payments to the ledger.*

This management agreed action has been achieved. Monthly meetings were infrequent during 2016/17 but since July 2017 these have taken place on a monthly basis.

Reconciliation of Ofgem payments to the financial ledger up to the end of September 2017 had been undertaken

by the RHI Data Coordinator with the assistance of the Service Finance Manager. This was the first reconciliation but the new policy states that reconciliations will be undertaken at least on a quarterly basis.

The accuracy of the year-end accrual has a material effect on income received in any financial year. The 2016/17 accrual was reviewed and found to be realistic. Amounts accrued either: matched subsequent payments received in the new financial year, matched the Ofgem system as being due but not yet paid, or for 5 sites were a fair estimate of the amount outstanding. The outstanding income has been pursued vigorously by the Council and the back payments have been regularly received to match the accruals.

- 2.2 *Policies and procedures are drawn up covering all aspects of RHI scheme and any other processes involving biomass boilers and meter equipment.*

A policy document to ensure that the Council maximizes RHI income for accredited sites was drawn up on 19/09/17 which covers the key aspects of the RHI Scheme. Procedures have also been drawn up to cover the following:

- Biomass boiler handover requirements checklist
- RHI Data Submission process
- RHI Data Collection process
- Meter Replacement/ Relocation process – checklist.

- 2.3 *An annual assessment and comparison with payments and weather predictors is undertaken in order to set future year's budgets.*

This management agreed action has been achieved as a forecast was carried out on an individual boiler basis taking into account heat output, applicable tariffs, and accounting for variations in temperature. However, this did not form the basis of the 2017/18 income budget, as

the 2016/17 income target was not fully achieved. As such the Service Finance Manager with the agreement of the Service Director and Head of Property & Facilities Management decided to leave the income budget target at £1 million, until such time as this is exceeded.

3. Audit Opinion

3.1 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 **Full Assurance** can be given as there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

All of the management agreed actions have been implemented although this was later than originally agreed. Whilst there has been a significant improvement in the reported income, this is not a static position and all accredited sites must be monitored and managed to ensure that any issues are promptly addressed so that any time where accreditation is lost or there are problems with site meters is minimised in order to maximise the Council's income.

Internal Audit Final Report

Care & Learning/ Development & Infrastructure Services

Cromarty Primary School – Review of Extension & Refurbishment
Project

Distribution:

Director of Development & Infrastructure
Director of Care & Learning
Head of Resources, Care and Learning
Head of Property and Facilities Management, Development & Infrastructure
Programme Manager, Development & Infrastructure
Estates Strategy Manager, Care & Learning
Consultancy Manager, Development & Infrastructure

Report Ref: HCC03/003
Draft Date: 25/10/17
Final Date: 14/11/17

1. Introduction

- 1.1 This audit was undertaken following a request from local Members who raised concerns that the project for the extension and refurbishment of Cromarty Primary School had taken longer and cost more than originally planned. In addition, there were concerns about the events that led to a boundary wall collapse and its subsequent rebuild.

The project was initiated in 2012 but the development of the design was put on hold in May 2013 due to land acquisition delays. At recommencement, the project cost and programme were reviewed. On completion of the project, the school extension and refurbishment was successfully delivered to the community. The quality of the school grounds and building changed from a "C" (Poor) to an "A" (Good) rating for condition and suitability.

Overall the project was originally expected to take 47 weeks and cost £2.75 million. Instead, it took 72 weeks with the final cost estimated at £3.75 million. Further details are provided at Appendix 1.

2. Main Findings

- 2.1 *Clear Roles and Responsibilities*

This objective was partially achieved as whilst project roles were defined within the Council's Project Procedures in place at the time, it could not be demonstrated that the appointed consultants had been made fully aware of these as this information was not retained on file and the individuals responsible for this task have since left the Council.

Due to a lack of available internal resources, key project team roles of Contract Administrator (CA) responsible for administering the contract, and Quantity Surveyor (QS) responsible for monitoring and reporting costs were

outsourced. In addition, external Structural Engineer (SEng), Mechanical & Electrical Engineer (M&E) and Construction Design Management Co-ordinator (CDMC) consultants were used.

The Care & Learning (C&L) Project Owner/Project Sponsor were responsible for monitoring the monthly project management reports and financial statements in relation to the contract award programme and approved budget.

Before being put on hold, a Project Manager (PM) was in place and regular project team meetings were held to discuss progress. During the project, there were several changes in the roles of PM, Clerk of Works (CoW) and Project Sponsor due to a number of reasons including staff leaving and internal restructurings.

- 2.2 *Sound contract management*

This objective was partially achieved as there was evidence of internal overview and project involvement, particularly following the wall collapse whereupon Council officers worked together to address this critical issue.

In September 2012, the high risk of the project being delayed if the required land was not obtained was highlighted.

The external commission for Contract Administration duties was awarded on the lowest priced tender bid of £39,000. However, due to unforeseen events and project delays, a further amount of £38,613 was paid.

Two main factors caused the delay and price over-run. During design stage, the unforeseen and abnormal discovery of New Zealand flat worms was one of the factors, the other factor being, during construction stage, the boundary wall collapse. New Zealand flatworms are not an occurrence that would normally have been tested for and was an abnormality. Regarding the wall collapse

which occurred during the construction phase, in the aftermath the Council sought explanation from the contractor (and others) as to the circumstances of the collapse. From the Council's internal perspective, lessons learned have led to recommendations to staff regarding site investigation and pre-construction risk assessment.

Concerning the 25 week delay, 19 weeks related to Extension of Time (EoT) awarded to the contractor, however, only 17 weeks related to Loss & Expense claims.

2.3 *Sound financial controls*

This objective was partially achieved as internal project cost monitoring took place after costs had been incurred. Financial Statements were issued by the external QS, but due to staff changes, these were not always provided timeously.

Additional costs of £94,497 were paid to the contractor including £87,943 for Loss and Expense claims and £6,554 for insurance and overheads and profit on variations.

Project costs significantly exceeded the approved budget due to unforeseen works, additional external works not in original scope and, as a result of the foregoing, additional professional fees and contractors on-costs.

The Council's internal change control process was not fully complied with. There were 276 variations, some of which related to the collapsed wall and contaminated land issues. It could not be demonstrated that all were supported by authorised Change Control Record Sheets (CCRS) and so, it could not be established that these were considered and approved by the Project Sponsor.

3. **Audit Opinion**

3.1 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 **Limited Assurance** can be given in that 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.

The concerns expressed by local members have been validated as this report has identified various project management and governance weaknesses. The catalyst for the delays and cost over-run mainly resulted from an inadequate site assessment process. In addition, it could not be demonstrated that certain aspects of the project was managed by a Council officer.

An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. This contains a total of **4** recommendations comprising of the following:

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	1
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	3
Minor issues that are not critical but managers should address.	Low	0

4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	Whole site surveys, risk assessments and pre-start investigations were not fully performed as part of the project pre-planning process. As such, the condition and stability of the historic boundary wall was not fully assessed by the Council or external consultants before works commenced on site. However, it was noted that the D&I's December 2014 Project Procedures document, does not presently refer to the necessity to assess and review on site historic walls and buildings.	In future, full cognisance should be taken of an entire project site, including surrounding perimeter walls, to ensure the whole site is captured under the risk assessment process. This is of particular importance in situations where historic buildings are concerned and the guidance should be updated in this regard.	All Design Consultancy Staff have been informed of the requirement to make sure a full appraisal of boundary wall/fence condition and stability is undertaken prior to works commencing on site, particularly where works are required adjacent to older structures. The appraisal should be carried out by a suitably qualified civil/structural engineer and all findings and recommendations recorded in the Health and Safety Risk Assessment and the Pre Construction Information pack.	Consultancy Manager	Completed
Medium	It could not be demonstrated that consultants were fully aware of, and understood, the Council's project management control procedures.	Where external consultants are used, the Terms of Engagement letter should include a copy of the Council's required project management control procedures. This information should then be retained.	A small contracts team is being created with the Property team to manage the consultants appointments process. The consultants tendering and acceptance documents will be reviewed and amended to ensure consultants are fully aware of the Council's project procedures.	Programme Manager	31/03/18

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	The additional land requirement was not secured before commencing the project planning process. As a result, the project was put on hold after a project team had been put in place and costs incurred.	To prevent unnecessary delays and time inefficiencies, the project planning process should include a section to confirm that all essential project resources have been identified and secured before this commences.	This will be reviewed at key gateway stages on all relevant projects.	Estates Strategy Manager	Completed
Medium	The Council's change control process was not fully complied with so, it could not be demonstrated that all cost or project scope changes were considered and approved by the Project Sponsor.	The Council's CCRS process as documented in the Project Manual should be reiterated to all relevant officers to ensure any changes are considered and approved by the Project Sponsor in terms of necessity and/ or cost. This includes the requirement for all changes should be supported by an authorised CCRS form.	The change control process has been reviewed recently to endeavour to make it less onerous for smaller value projects. Given the numbers of projects that some staff are managing, it has been difficult to ensure it has been consistently applied. Therefore, the process has been streamlined and all property project related staff have been advised. Spots checks will continue to be carried out to ensure the process is being used.	Programme Manager	Completed

Appendix 1

Comparison between the original plan and final position regarding the timescales and costs:

<u>Initiation Timeline:</u>	<u>Contract Award Timeline</u>	<u>Final Timeline</u>
Start date: 25/03/13	Start date: 05/01/15	Start date: 05/01/15
End date: 25/10/13	End date: 27/11/15	End date: 20/05/16
Number of weeks: 30	Number of weeks: 47	Number of weeks: 72

Project costs	£			
	Initiation	Contract Award	Revised Award	Estimated final*
Estimated Construction costs	1,650,000	-		
Tender/ Contract value	-	2,097,676	1,938,490	2,467,699
Development & Infrastructure fees*	280,500	358,609	329,543	500,000
Other works	69,500	11,786	11,786	87,804
Other costs	-	281,929	470,181	300,000
Water tank etc.	-	-	-	245,679
Extension of Time claims	-	-	-	94,497
Enabling works	-	-	-	54,321
Total	<u>2,000,000</u>	<u>2,750,000</u>	<u>2,750,000</u>	<u>3,750,000</u>
<p>* Cost increase relates to: Unforeseen works, additional external works not in original scope and, as a result of the foregoing, additional professional fees and contractors on-costs.</p>				



Internal Audit Final Report

Development & Infrastructure Service

LEADER Programme 2016/17

Distribution:

Director of Development and Infrastructure
Environment Manager, Development and Infrastructure
LEADER Programme Manager, Development and Infrastructure
Programme Administrator, Development and Infrastructure

Report Ref: HEA05/003

Draft Date: 07/11/17

Final Date: 13/11/17

1. Introduction

- 1.1 This was the second audit assessing the administration of the 2014-2020 Highland LEADER Programme which is valued at £8.8m. The audit is a requirement of the Service Level Agreement (SLA) between the Scottish Government Rural Payments and Inspections Directorate (SGRPID) and the Highland Council, and covers the period 16/10/16 to 15/10/17.
- 1.2 The LEADER Programme is part of the Scottish Rural Development Programme, aimed at promoting economic and community development within rural areas. Funding from the EU is centrally distributed by the SGRPID to eligible areas.
- 1.3 This is the first year where projects and administration claims were processed online on the Local Actions in Rural Communities system (LARCs) rather than a paper-based system.

2. Main Findings

2.1 *Adherence to the 2014 – 2020 Programme SLA*

The first audit objective was substantially achieved. Seven projects and one quarterly administration claim were reviewed to ensure the obligations set out in the 2014-2020 LEADER Programme SLA had been adhered to for project claims and verification checks.

The projects reviewed were at various stages of approval and payment, and meet the SLA obligations and underpinning legislation. The only significant finding was for one project where changes in match funding resulted in the original LEADER grant offer amount being reduced. A revised grant offer was issued but due to on-going functionality issues with LARCs, this was deleted by the Scottish Government.

The advice given at that time by Scottish Government LEADER Team was there was no need for a revised offer of grant letter. The LEADER Programme Manager's view

was a revised offer of grant letter was required and this was also reinforced in the LARCs training from the Scottish Government which contradicts previous advice given. The Internal Audit view is that such changes should be formally notified to applicants by way of a revised offer letter which gives clarity to the applicants. It is also essential that this can be properly recorded in LARCs as this will impact upon the subsequent grant claims made by applicants, and failure to claim the correct amounts can result in financial penalties being applied.

One project reviewed resulted in the creation of 6 part-time posts, but one appointment was made without advertising the post thus not meeting the guidance requirement that "recruitment must be carried out in a fair, open and transparent way". They had been interviewed for another post for which they were unsuccessful but were appointed as they met the criteria of the unadvertised post.

The 2017 quarter 1 claim was reviewed which contained 187 transactions. It was noted that 121 transactions in LARCs, specifically for the months of February and March 2017 had not been stamped "*Highland LEADER Programme EC Funding Paid*", although the original documents have been stamped as such.

All except 2 of the 187 transactions had been evidenced that payment had been made from the Highland Council's bank account. A failure to retain a copy of the bank statement accounted for the other 2.

The Highland Council, as the Accountable Body for the Highland LEADER Programme signed the SLA with the SGRPID with the following conditions:

- The need for a dispute resolution process which was in progress but had not been finalised.
- The need for Scottish Government guidance to be formally issued, which subsequently occurred.
- A clearly identified process and resource to resolve any queries timeously with the new LARCs IT

system. The findings of this year's audit report highlights that there are still shortfalls in the system as detailed above.

- Wish to add a section to the Fair Processing Notice which makes it clear that specific information regarding LEADER projects is likely to be disclosed under Freedom of Information (FOI) requests. This has not yet been addressed.

2.2 *Previous management agreed actions implemented*

The second objective was fully achieved as all the management agreed actions have been implemented. This has resulted in an improved audit trail for administration costs claims and made the evidencing process more efficient.

3. **Audit Opinion**

3.1 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 **Substantial Assurance** can be given in that 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

An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. This contains a total of **4** recommendations comprising of the following:

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	2
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	-

4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	<p>The Highland Council conditionally signed the SLA to accept responsibility as the Accountable Body for the Highland LEADER Programme, the following which are still outstanding:</p> <ul style="list-style-type: none"> • The need for a dispute resolution process; • The need for LARCs to be fully functional with clearly identified processes and resource to resolve any queries timeously; and • The Fair Processing Notice makes it clear that specific information regarding LEADER projects is likely to be disclosed under an FOI request. 	The LEADER team should request written confirmation from the Scottish Government as to the status and an expected resolution date of each outstanding condition.	Accountable Body representative will write to Scottish Government to seek confirmation of status and expected resolution date for the conditions.	Environment Manager	31/12/17
High	One project appointed an individual to a post without having advertised it.	The Programme Administrator should ensure that all applicants are made aware that recruitment must be carried out in a fair, open and transparent way.	This will be covered in the team meeting scheduled for 23/11/2017 to ensure that all Development Officers are reminded of the recruitment/procurement requirements.	Programme Manager	23/11/17
Medium	Contradictory advice has been given by the Scottish Government as to whether evidence of a revised offer of grant letter should be retained on LARCs. This highlights issues with the functionality of LARCs and raises concerns that penalties may be incurred as a result.	The LEADER team should request written confirmation from the Scottish Government as to what evidence should be retained on LARCs regarding revised offer of grant letters. This request should also highlight that this is part of the wider issue of LARCs functionality.	Written confirmation to be requested from Scottish Government.	Programme Manager	31/01/18

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	Although the original documents have been stamped "Highland LEADER Programme EC Funding Paid" the transactions in LARCs for February and March of the first quarter of 2017 claim had not been stamped accordingly. 2 of 187 administration transactions did not have evidence of being defrayed.	The Programme Administrator should ensure that all transactions claimed for have supporting documents : (i) which are stamped "Highland LEADER Programme EC Funding Paid"; and (ii) to evidence that they are defrayed.	All documents in future to have correct stamp and defrayal evidence.	Programme Administrator	30/11/17