



Comhairle nan Eilean Siar
Internal Audit Review
Outer Hebrides - Community Led Local Development
(OH CLLD)
Final Report –2023/24 -21

30 April 2024

**COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT
OUTER HEBRIDES CLLD 2023/24**

CONTENTS

SECTION 1	<u>EXECUTIVE SUMMARY</u>	Page 1-2
SECTION 2	<u>RECOMMENDATIONS AND AUDIT OPINION</u>	3
SECTION 3	<u>FINDINGS, RECOMMENDATIONS AND ACTION PLAN</u>	4-7
APPENDIX A	<u>RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT</u>	8
APPENDIX B	<u>DEFINITION OF AUDIT OPINIONS</u>	9
APPENDIX C	<u>ISOLATED EXCEPTIONS TO EXPECTED PROCEDURES</u>	10

Date of Visit	September 2023, December 2023, April 2024.
Draft Report Issued	30 April 2024
Management Response Received	30 April 2024
Final Report Issued	30 April 2024

Issued to:	
Chief Executive	Malcolm Burr
Depute Chief Executive	Calum I Maciver
Economic Development Manager	Domhnall Macdonald
OH CLLD Coordinator	Mira Byrne
External Audit	Martin Devenny

**COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT
OUTER HEBRIDES CLLD 2023/24**

SECTION 1: EXECUTIVE SUMMARY

Introduction

1.1 The Report has been prepared following an internal audit review of the Outer Hebrides – Community Led Local Development (OH CLLD) as part of the operational annual internal audit plan for **2023/24**. The purpose of the Report is to provide an overview of the Comhairle’s arrangements for the operation and management of the OH CLLD. The scope of the audit included a review of the following objectives:

- A designated officer is responsible for the monitoring of all funded projects;
- All the grants are awarded in line with the remit of the agreed scheme;
- An assessment of reasonableness of cost for all projects submitted is undertaken by experienced staff;
- All projects and levels of funding are regularly reviewed, reported on and scrutinised by the relevant committee;
- Expenditure incurred is eligible and correctly authorised;
- Performance targets are in place and milestones agreed to determine priorities and monitor the achievement of outcomes;
- Files are quality assured for completeness; and
- Procedures are in place for taking corrective action in the event of grants not being used for the intended purpose, fraud and other irregularities.

Background Information

1.2 Community Led Local Development (CLLD) gives local communities the power to tackle their own local challenges by building knowledge and skills, supporting new ideas and encouraging cooperation and helping to create viable and resilient communities.

Scottish Government made £418,000.00 funding available for 2023/24. The initial allocation to OH CLLD was £267k but the LAG was able to – and successful in – bidding for additional capital and revenue. The budget was allocated to seven project strands which each received funding for their specific projects: The projects supported consist of:

Design Grant, Capital Grant, Small Grants Scheme, Community Transport, LAG Development and Youth LAG.

The original CLV included a “Reducing Energy & Emissions study” strand. This was put on hold when it became apparent that the Islands Centre for Net Zero was already undertaking similar work.

**COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT
OUTER HEBRIDES CLLD 2023/24**

Internal Audit reviewed 30 files covering the Design Grant Fund (9 files), Capital Grants (13 files) and the Small Grants Scheme (8 files).

The Outer Hebrides Community Led Local Development (OH CLLD) is overseen by the Local Action Group (LAG) which is made up of experienced professionals who scrutinise each application and award based on a scoring criterion and are provided with up-to-date progress at regular intervals. Projects are also subject to Scottish Government terms and conditions which must be followed throughout the project journey.

Projects must demonstrate that activity will advance inclusion, equality, and diversity, and support one or more of the main fund priorities for 2023/24 which are:

- Helping families and services through the cost-of-living crisis;
- Eradicating child poverty;
- Transforming the economy to deliver net Zero; and
- Creating sustainable public services.

All grant applications have been finalised and paid out by 31 March 2024 as per the requirements of the Scottish Government guidance and all end of project reports have been received from the applicants.

Concluding Remarks

1.3 Our detailed findings are included in the body of the Report. We would point out that the most significant issues arising from our review which require management attention are:

- The OH CLLD works in isolation with no segregation of duties in place for the processes from submission of applications to payment of grants. This poses a risk to the Comhairle in that any errors or discrepancies may go undetected and not be identified timeously; (Med1)
- Written statements must be provided by applicants prior to any payments being released confirming the requirements of the Minimal Financial Assistance (MFA) provisions of the Subsidy Control Act 2022; (Low 1) and
- Where issues have been identified concerning VAT the OH CLLD seeks clarity from the Scottish Government and issue information to grant claimants. In the event that no information is forthcoming claimants should seek independent financial advice. (Low 2)

The review was initially undertaken in September 2023 and at this time the applications had been submitted and due to the timing of the review we decided to postpone until December to allow for the applications and the backing documentation to be returned.

After the cyber-attack in November 2023, we revisited and attempted to pick up from the point we concluded at in September 2023. The bulk of the information was no longer available in the previous format and we further postponed allowing the programme to progress to a point where we could allow for the data to be reinstated (to a point) and fully review the progress from start to finish. We concluded the review in April 2024.

We found the documentation provided to us of a high standard and the interaction and communications with the member of staff involved was excellent.

**COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT
OUTER HEBRIDES CLLD 2023/24**

SECTION 2: RECOMMENDATIONS AND AUDIT OPINION

2.1 We have graded our detailed findings and recommendations, based on the likelihood of the identified weakness occurring and the impact on the Comhairle if it should occur.

The following table contains the definitions applied by Internal Audit in rating audit findings/actions and the number of recommendations in each rating.

Definition of recommendation	Grade	No.
Major weaknesses that could have a significant impact on the Comhairle if not addressed and contained urgently.	High	
Important issues relating to controls being absent, not operating as expected or could be improved.	Medium	1
The weakness is unlikely to have a material impact on the Comhairle. These are not critical but management should address.	Low	2

Where we have identified isolated exceptions in our sample testing, and we consider that they are unlikely to recur; and would have no significant impact if they should occur;

We have classified them as minor or trivial, discussed them with relevant officers and detailed them in Appendix C to the Report.

2.2 Based on the audit work carried out our overall opinion is that a substantial level of assurance can be placed upon the control environment of the service/area under review. A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

It should be noted that our findings and conclusions are based on the information made available to us at the time of our review.

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30 April 2024

**COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT
OUTER HEBRIDES CLLD 2023/24**

SECTION 3 – FINDINGS, RECOMMENDATIONS AND ACTION PLAN

GRADE	FINDINGS & IMPLICATIONS	RECOMMENDATION	MANAGEMENT COMMENT	RESPONSIBLE OFFICER	TARGET DATE OF IMPLEMENTATION
Medium 1	<p>The purpose of segregation of duties is to prevent fraud, errors and misuse of funds by dividing responsibilities among different individuals. The CLLD coordinator is the sole administrator of the grants from the sending out of application forms, confirming the submissions, checking the necessary documentation has been provided and informing claimants of their awards and the processing of payments for Creditors. We found the Coordinator to be highly efficient in the administration of the grants, nevertheless, this is not an ideal situation for the coordinator to be in due to exposure of risk and no scrutiny by senior officers. The Economic Development Manager signs the grant claim forms for the claiming of grants from Scottish Government. However, there is comfort in the fact that all submissions are scrutinised independently by the LAG before the award stage.</p>				

**COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT
OUTER HEBRIDES CLLD 2023/24**

GRADE	FINDINGS & IMPLICATIONS	RECOMMENDATION	MANAGEMENT COMMENT	RESPONSIBLE OFFICER	TARGET DATE OF IMPLEMENTATION
Medium 1 (cont)	We do understand that an application for an assistant was in place when we first visited the review but this has not materialised.	Management to confirm that a reasonable level of segregation to be applied for the administration of the grants processes.	If time and budget allow and the LAG are in agreement, renewed efforts will be made in 2024-25 to recruit an admin assistant to enable a better level of segregation of duties within CLLD. If this can't be achieved, the Economic Development Manager will carry out more checks/scrutiny of processes, as appropriate, to provide a further (reasonable) level of segregation.	Economic Development Manager	Ongoing

**COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT
OUTER HEBRIDES CLLD 2023/24**

GRADE	FINDINGS & IMPLICATIONS	RECOMMENDATION	MANAGEMENT COMMENT	RESPONSIBLE OFFICER	TARGET DATE OF IMPLEMENTATION
Low 1	<p>Where an applicant is registered for VAT, they are paid the net amount of the invoices claimed and the VAT element is claimed back from HMRC. Where there is no VAT registration the claimants are paid the gross amount on the invoices. It is the responsibility of the claimant to determine the treatment of their individual VAT. We have identified that there are uncertainties concerning the application of VAT through email communication from an applicant. The Coordinator contacted the Scottish Government to clarify and it transpired that Scottish Government were unaware of this issue. Scottish Government advised that further information would be forwarded but to date this has not been received.</p>	<p>The OH CLLD coordinator to follow up with Scottish Government on any updated guidance for VAT for the 2024/25 session. Otherwise, clarification should be sought from HMRC in the interests of the Comhairle.</p>	<p>The CLLD Coordinator will wait for SG to issue guidance for 2024-25 and seek further clarification on VAT if required. A note will be added to future funding guidance to make it clear that it is the applicant/claimant's responsibility to ensure VAT is applied correctly to their claim and that, if in doubt, they should consult a VAT specialist. The Economic Development Manager will familiarise himself with any advice/ guidance received from Scottish Government, and/ or clarification received from HMRC by the CLLD Coordinator on this matter subsequently.</p>	OH CLLD Coordinator	June 2024

**COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT FINAL REPORT
OUTER HEBRIDES CLLD 2023/24**

GRADE	FINDINGS & IMPLICATIONS	RECOMMENDATION	MANAGEMENT COMMENT	RESPONSIBLE OFFICER	TARGET DATE OF IMPLEMENTATION
Low 2	<p>Included in the guidance is that any CLLD funding must be compliant with the Subsidy Control Act 2022, in that applicants who receive up to the maximum level of subsidies of £315K in the previous two financial years must declare this in writing.</p> <p>In discussions with the Coordinator not all applicants have provided the written confirmation. The stipulation in the grant eligibility states that written confirmation must be received confirming that the thresholds have not been exceeded. The onus lies with the applicant to demonstrate compliance.</p>	<p>Written confirmation must be provided to the Comhairle prior to any payments being made demonstrating that the Minimal Financial Assistance (MFA) threshold will not be exceeded.</p>	<p>The CLLD Coordinator will review most recent government guidance and devise a process that ensures projects awarded funding are assessed to establish whether MFA rules apply. If MFA applies, projects will be required to provide suitable written confirmation that the funding won't take them over the maximum threshold. If MFA doesn't apply, a written record will be kept detailing why the project was deemed exempt. A note will be added to future funding guidance to make it clear that it is the applicant/claimant's responsibility to demonstrate compliance.</p>	OH CLLD Coordinator	June 2024

RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT

Responsibility in Relation to Internal Controls

It is the responsibility of the Comhairle's management to maintain adequate and effective financial systems and to arrange for a system of internal controls. Our responsibility as internal auditors are to evaluate the financial systems and associated internal controls. In practice, we cannot examine every financial implication and accounting procedure within an activity, and we cannot substitute for management's responsibility to maintain adequate systems of internal controls over financial systems. We therefore may not identify all weaknesses that exist in this regard.

It is the responsibility of the Comhairle's management to consider the detailed findings of this Report, where such findings have a specific impact on risk registers. This may include a risk that has not yet been identified, or current risk controls which may be required to be updated to reflect any changes as a result of the findings contained in this report.

Responsibilities in Relation to Fraud and Corruption

The prime responsibility for the prevention and detection of fraud and irregularities rests with management. They also have a duty to take reasonable steps to limit the opportunity for corrupt practices. It is our responsibility to review the adequacy of these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity may have occurred and remained undetected.

We nevertheless endeavour to plan our internal audit work so that we have reasonable expectation of detecting material fraud, but our examination should not be relied upon to disclose all such material frauds that may exist.

DEFINITION OF AUDIT OPINIONS AND RATINGS

The standard definitions for internal audit assurance over an engagement are as follows:

Level of Assurance	Definition
Full Assurance	Internal control, governance and risk management are of a high standard. A sound system of control to achieve the system objectives exists and the controls are being consistently applied.
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

ISOLATED EXCEPTIONS TO EXPECTED PROCEDURES AND CONTROLS

ITEM	ISOLATED EXCEPTION	RESPONSIBLE OFFICER	AGREED Y/N	DATE OF DISCUSSION