

- Identification of the various projects which have been in place from the 2007-2013 programme and document the high level responsibilities for each partner for each project;
 - Documentation and walkthrough of the process for submitting applications for European funding, identifying the controls which the Council has to identify overlaps with other funding streams;
 - Documentation and walkthrough of the process and arrangements for monitoring projects and submitting interim claims;
 - Documentation and walkthrough of the internal control arrangements for ensuring accurate claim forms are submitted, ensuring compliance with the grant conditions and national rules on eligibility of expenditure;
 - Identifying the existing process documentation available to staff, and consider its availability and completeness;
 - Documentation and walkthrough of the arrangements for managing grant funding within the Council, and the related expenditure, in order to ensure controls are in place; and
 - Testing design and implementation of internal controls to identify where recurring expenditure is committed and where funding may not be recurring.
- 4.3 A summary is provided below of the key findings to date of the audit. We do not list below all the areas of internal control that were found to be in place. Rather we highlight the main areas where the internal control environment could be enhanced in light of the issues at JBG.
- 4.4 Work is currently ongoing relating to the final phase of the

audit fieldwork. This will be completed by 31 March 2016 and any additional significant matters arising will be reported thereafter. The main areas outstanding relate to tests of operating effectiveness of some controls, consideration of data retention arrangements, and a forward-look to anticipated changes to eligibility rules and grant conditions for the 2014-2020 phase of European funding.

Main findings

- 4.5 There was a lack of clarity as to the correct procedure to follow in contracting delivery partners to undertake grant funded work, particularly where Council ALEOs are acting as delivery partners. Legal Services have confirmed that the existing ALEO services agreement should be updated to reflect any such additional work and funding. This should be the protocol going forward prior to any activities commencing or funding being awarded. Irrespective of the correct procedure being followed, delivery partners still entered into a contract by accepting funding and delivering services [*Action plan #3*].
- 4.6 Details surrounding grant funding arrangements across the Council are not available from any one collated source, nor are they monitored and reviewed as a whole by a responsible officer or department. There is a risk that management therefore do not have an oversight of all project funded activity, impacting the ability to manage associated risks, or to make strategic decisions around the future direction of grant funding applications [*Action plan #4*].
- 4.7 There is no formal framework across the Council over European grant arrangements, covering:
- Identification of grant opportunities;

- Submission of applications;
- Agreements with service delivery partners;
- Monitoring progress and compliance; and
- Submission of claims.

Management should formalise a European grant funding framework outlining the procedures to be followed. This should include roles and responsibilities, key processes, and scrutiny of delivery partners [Action plan #5].

- 4.8 When formalising agreements with ALEOs and external delivery partners, management should ensure the partner is able to demonstrate their ability to comply with funding terms and conditions. This will enable the Council to ascertain risks associated with individual delivery partners, and target monitoring and compliance resources accordingly prior to submitting final claims [Action plan #6].
- 4.9 There is scope to improve the audit trail for projects being delivered by third parties. Key documentation that should be retained for each project should include signed grant funding applications and agreements, updates to services agreements, all completed interim and final claims, all related correspondence, and all monitoring and compliance checks [Action plan #7].
- 4.10 DRS have monitoring arrangements in place to check the completeness of all documentation submitted in support of grant claims. This includes progress updates, project management and governance arrangements, financial monitoring information and document retention for compliance purposes. However, we found that there was not always consistency in these monitoring arrangements across projects over the 2007-2013 period. There is also scope, as noted above, to implement a more risk-based approach to

utilising staffing resources on monitoring and compliance activity [Action plan #8].

- 4.11 There is currently no dedicated training or guidance available to ensure Council employees involved in European funding are fully aware of the funding terms and conditions. There is scope to create a central suite of training and guidance, and for this to be mandatory for any Council employees involved in European funding. This could also be made available for external delivery partners to use. Development of this guidance and training should take into account known changes to the terms and conditions applicable for the new 2014-2020 round of European funding [Action plan #9].
- 4.12 The issues initially identified in JBG relating to the ECDC claim illustrate the importance of ensuring match funding is appropriately identified, and the eligible expenditure is not double counted for the purposes of claiming grant funding. There is currently no formal process in the Council for managing this risk. The risk is heightened where an external delivery partner is involved due to the added lack of oversight of their financial planning and funding streams. This risk could be reduced through the implementation of the grant funding framework outlined at 4.7. Additional scrutiny should also be put in place to challenge match funding assumptions when third party delivery partners are used [Action plan #10].
- 4.13 The framework outlined at 4.7 could also be used to assist with enhanced financial planning in order to identify the "commitment risk", whereby the Council effectively becomes committed to recurring expenditure, where the associated funding stream is not guaranteed to be recurring. This currently takes place through normal financial forecasting within the Council and the ALEOs. However, formalising this forward-view would enable more proactive "exit strategies" to

be developed in the event of grant funding ceasing. Similarly, delivery partners should be challenged as to how they manage this commitment risk as part of the Council's scrutiny procedures prior to awarding grant funding [Action plan #11].

- 4.14 An action plan is provided at section 5 outlining our observations, risks and recommendations. We have made 11 recommendations for improvement. The risk ratings assigned to recommendations in terms of priority and severity are:

Risk Rating	Definition	Total
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	5
Medium	Less critically important controls absent, not being operated as designed or could be improved.	5
Low	Lower level controls absent, not being operated as designed or could be improved.	1

- 4.15 We would like to thank officers involved in this audit for their cooperation and assistance.
- 4.16 It is recommended that the Head of Audit and Inspection submits a further report on the implementation of the actions contained in the attached Action Plan.

5. Action Plan

Title of the Audit: European Funding

No.	Observation and Risk	Recommendation	Priority	Management Response (if appropriate)
1	The extent of non-compliance with European funding grant conditions by JBG is significant and very serious, with significant financial and reputational implications for the Council family, including a £4.8m clawback of funding.	The Council needs to satisfy itself that the issues that led to JBG not complying with grant conditions, and the subsequent financial implications, are fully investigated. Given JBG submitted claims for expenditure known to be ineligible, and that assurances provided by JBG senior managers were found to be untrue, the Council should refer these matters to Police Scotland.	High	Officer Responsible for Implementation: GCC Chief Executive Timescale for Implementation: Immediate (January 2016)
2	The review of arrangements for European funding at JBG were communicated to the Council's Chief Executive, JBG Chief Executive and JBG Chair in October 2015. These included a number of recommendations to improve the internal control environment for European funding at JBG.	Recommendations arising from the Internal Audit review of European funding arrangements at JBG should be fully implemented prior to any additional European funding being awarded by GCC to JBG.	High	Officer Responsible for Implementation: GCC Chief Executive / JBG Chair Timescale for Implementation: February 2016

No.	Observation and Risk	Recommendation	Priority	Management Response (if appropriate)
3	During our audit we noted that there was a lack of clarity around the correct procedure to be followed when contracting delivery partners to undertake European funded work, particularly where Council ALEOs are acting as delivery partners. Whilst the acceptance, receipt and use of these funds still represents a legal obligation to comply with the grant conditions, this process needs to be formalised and followed consistently.	Wherever the Council is using an ALEO to deliver aspects of European funding, the Services Agreement should be formally revised to reflect the new services being delivered and associated funding.	Medium	Officer Responsible for Implementation: Executive Director DRS / Head of Legal Services Timescale for Implementation: February 2016
4	There is no central register of all grant funding arrangements across the Council family. This prevents an effective overview for management to use to identify and mitigate associated risks, or to inform strategic decision making on future grant applications.	A central register of all grant funding activity across the Council family should be created and maintained. This should be frequently monitored to manage grant funding risks, and inform decisions on future grant applications.	Medium	Officer Responsible for Implementation: Acting Executive Director Corporate Services Timescale for Implementation: March 2016
5	There is no formal framework for European funding across the Council family. There is an opportunity to ensure there is clarity over expected processes, systems and controls wherever parts of the Council family enter into European funding activity.	A comprehensive European funding framework should be developed, including: <ul style="list-style-type: none"> • Applications and submissions • Contracting and agreements • Monitoring and compliance • Submission of claims • Scrutiny of delivery partners • Roles and responsibilities 	High	Officer Responsible for Implementation: Executive Director DRS Timescale for Implementation: March 2016

No.	Observation and Risk	Recommendation	Priority	Management Response (if appropriate)
6	Where delivery partners are used by the Council to deliver European funded outcomes and defray European funding, the risks of non-compliance with funding conditions initially resides with the Council. However, there is no formal mechanism to screen delivery partners in advance to satisfy the Council they are able to meet these conditions, and therefore mitigate the risk to the Council as lead authority.	The Council should formally assess the ability of delivery partners to comply with European funding conditions prior to awarding grants. This information should then be used to target monitoring and compliance resources by the Council prior to the submission of final claims.	Medium	Officer Responsible for Implementation: Executive Director DRS Timescale for Implementation: March 2016
7	There is scope for the Council to improve the audit trail for projects being delivered by third parties, collating all key project documentation in one place.	All key project documentation should be retained and held centrally by the Council, regardless of who is delivering the project – funded activity. This should include signed applications and agreements, updates to Services Agreements, claim forms, correspondence and monitoring and compliance checks.	Low	Officer Responsible for Implementation: Executive Director DRS Timescale for Implementation: March 2016
8	There is scope to enhance the monitoring undertaken by DRS over delivery partners. Whilst the legal obligation to comply with grant conditions lies with the delivery partner, the Council has ultimate responsibility when submitting final claims to the Scottish Government.	DRS should establish a risk-based approach to monitoring compliance of third party delivery partners. This should be embedded within the framework at action plan #4.	Medium	Officer Responsible for Implementation: Executive Director DRS Timescale for Implementation: March 2016

No.	Observation and Risk	Recommendation	Priority	Management Response (if appropriate)
9	There is no central dedicated training or guidance in place to ensure Council employees involved in European funding are fully aware of the associated conditions and compliance requirements.	A suite of training and guidance should be maintained. Any Council employees involved in European funding (operationally, financially, or in governance roles) should have a mandatory duty to complete training using these tools. This could also be made available for external delivery partners to use. Guidance and training should be kept up to date, specifically to reflect any changes arising from the 2014-2020 phase of European funding.	High	Officer Responsible for Implementation: Head of Communications & Organisational Development Timescale for Implementation: March 2016
10	There is no formal mechanism to proactively prevent "cross over" of match funded activity. There is a risk, as evidenced in the ECDC project in JBG, that activities over time can become funded from more than one source, which in the case of European funding could represent non-compliance with grant conditions.	Management should explore ways to monitor grant funded expenditure to prevent the double-funding of project activity, where the associated grant funding conditions are restricted. This needs to reflect the in-house delivery of projects and also where third party delivery partners are used.	High	Officer Responsible for Implementation: Extended Corporate Management Team Timescale for Implementation: March 2016
11	There is no formal mechanism to identify and mitigate "commitment risk", whereby the Council family is effectively committed to recurring expenditure but associated funding may not be recurring.	The Council should establish a formal process to identify commitment risks, and therefore enable effective exit strategies to be developed to minimise any financial or contractual exposure.	Medium	Officer Responsible for Implementation: Extended Corporate Management Team Timescale for Implementation: March 2016