

## **Audit Committee**

### **Summary report on the completion of all EU funded schemes under Convergence Programme 2007-2013**

**30<sup>th</sup> September 2016**

The purpose of this report is to provide a summary of completed externally funded schemes within Carmarthenshire funded by Wales European Funding Office (WEFO) under the European Convergence Funding Programme (2007-2013) together with the results of audits and any amendments during 2014-15 and 2015-16.

#### **Background**

The Authority was involved in a total of 23 projects over the whole Convergence period (2007-2013), with a total scheme value of £113.3m and grant value of £55.5m. Of these projects, Carmarthenshire were directly leading on 9 projects and were a partner organisation on 14 projects.

#### **Audit: 2014-15 to 2015-16.**

During 2014-15 and into 2015-16, 8 Convergence schemes were in existence and subsequently finalised.

#### **Summary**

Number of Convergence projects: 8

Total period: 7 yrs 5 months

Total eligible project cost: £89.6m (£73.9m Capital / £15.7m Revenue)

Grant received from WEFO: £41.3m

Other income: £48.3m

Other income received consists of: Private sector investment £23.0m, Welsh Government £11.8m and other sources £1.3m with £12.2m provided by Carmarthenshire County Council.

## **Wales Audit Office – audit findings**

<b>Scheme</b>	<b>Claim Value</b>	
	<b>2014-15</b> <b>£</b>	<b>2013-14</b> <b>£</b>
The Works - Final claim	3,393,896	-
Collaborative Communities - Final claim	1,709,660	1,709,660
Business Finance/ LIF - Final claim	1,388,730	4,059,167
Bwcabus - Final claim	635,508	604,707
Crosshands East - Final claim	5,802,625	2,705,264
Regional Learning Partnership	-	734,295
Property Development Fund	Not audited	2,797,659
Carmarthenshire Physical Regeneration	Not audited	3,188,263

In 2015-16, 5 EU funded claims relating to 2014-15 were certified by Wales Audit Office. All 5 claims audited were qualified of which 4 claims were amended. The total amendment to the claims was £20k which represents 0.16% of the total claim value in the period. Reasons for the amendments were predominantly as a result of insufficient evidence to support apportionments and costs within the claims.

In 2014-15, 7 EU funded claims relating to 2013-14 were certified by Wales Audit Office. All 7 claims audited were qualified of which 4 claims were amended. The total amendment to the claims was £22k which represents 0.14% of the total claim value in the period. The largest amendment was for £20k which was as a result of insufficient evidence to support match funding included in the claim. Despite initial agreements being in place relating to charging methodologies by internal service providers to EU funded projects, at programme end these methodologies and their application were further reviewed by WEFO, which resulted in adjustments being made across all projects.

### **Property Development Fund and Carmarthenshire Physical Regeneration schemes**

The Property Development Fund and Carmarthenshire Physical Regeneration schemes were both due to receive their final audit in 2014-15. However, these final audits were not

undertaken by the Wales Audit Office (WAO) as previous audits on these projects had raised a number of significant issues and their findings were not accepted nor agreed by the Council. WEFO undertook an independent assessment on these projects to understand the position and reach a conclusion on any actions required. This report summarises their comments, feedback, adjustments and recommendations made.

#### **a) Property Development Fund (PDF)**

The purpose of the South West Wales Property Development Fund Project was to provide financial assistance for the construction of development buildings for industrial or commercial use. The primary aim was to create capacity for employment in selected areas of South West Wales by developing commercial properties to a BREEAM Excellent rated standard.

Carmarthenshire County Council was the lead sponsor for this Project.

#### **Scheme Value:**

Cumulative Gross Expenditure: £22.8m

Eligible Expenditure: £22.8m

Grant: £11.1m

#### **Final Claim**

Audited claim Expenditure: £12.1m

Total grant paid to date: £5.3m

Grant payable this claim: £5.8m

#### **Scope of review**

The final claim audit was undertaken by the Welsh European Funding Office (WEFO) Management and Verification team. This review was limited to the review of expenditure, match funding and procurement activities only. Internal controls were not assessed and reliance was placed upon previous accountants' reports. The WEFO European Funds Audit Team (EFAT) also undertook a review of the project to date in light of concerns raised by Wales Audit Office in previous accountant's reports. Both reviews were conducted within a similar time period.

#### **WEFO feedback**

Both reviews were conducted successfully with sufficient results and no qualifications. The overall management and operational arrangements in place were categorised as "Effective".

#### **Procurement**

No issues were identified with the procurement process. It was deemed that the Council had complied fully with the terms and operating agreement with Welsh Government, and

with third party due diligence. However, going forward WEFO recommended that there was scope to improve and strengthen the procurement process in relation to providing a clear basis for approval of tenders.

Within the final claim audit, of the 4 contracts let in the claim period, 2 were tested being “The Old Dairy – Tai Dinefwr” and “Hayston Road”. Both exercises had followed procedures agreed by the lead sponsors, the tenders submitted were deemed to provide value for money and contracts were awarded.

The EFAT audit involved the review of 2 end beneficiaries – R&A Properties and Deryn Properties receiving £281k and £2,951k grant respectively. No issues were identified.

#### Other recommendations made:

WEFO concluded that the procedures for the recording and management of conflicts of interest could be improved and the Authority should provide evidence of how conflicts are managed.

It was also advised that the Council needed to improve how decisions are recorded to ensure a sufficient audit trail is in place, specifically in relation to revisions to grant and contract awards, and any tenders relating to them.

These recommendations are learning issues for future schemes and have been accepted by the Authority and will be taken forward into future funding programmes. Where necessary, procedures have been amended to incorporate this learning.

#### Good practice

Several instances of good practice were observed by WEFO EFAT in their report being that:

- Carmarthenshire County Council have effective systems and processes in place to monitor and oversee the end beneficiaries delivery of agreed outputs;
- Financial controls were effective in ensuring that only eligible expenditure was included in the claims under review
- Full and open procurement processes undertaken for large contracts.

#### Claim adjustments

The only adjustment to the scheme was as a result of minor amendments relating to corporate ineligible items being corrections by WEFO on the flat rate claimed on overheads, for WWEC fees and Design and Management fees, as a result of a corporate exercise by WEFO. This applied to all projects. Total adjustment £200 (£0.2k).

### **b) Carmarthenshire Physical Regeneration Package (Adref)**

#### **Scheme Value:**

Cumulative Gross Expenditure: £10.9m

Eligible Expenditure: £10.7m

Eligible Income: £7.9m

Grant: £2.8m

#### Final claim

Audited claim expenditure: £2.0m

Total grant paid to date: £2.5m

Grant payable this claim: £0.3m

#### **Scope of review**

The final claim audit was undertaken by the Welsh European Funding Office (WEFO) Management and Verification team.

In reviewing the final claim, the control environment assessment was based on the previous Wales Audit Office claim report, and as there were significant concerns raised by Wales Audit, WEFO elected to increase the sample size to 20% from 10% (representing 55% of the audited claim expenditure value at £1.1m) and test all 3 of the procurement exercises that started and completed within the claim period.

#### **WEFO feedback**

The procurement of the frameworks in existence during the timeframe of the project was reviewed with no issues noted. However, on 2 of the procurement exercises, although the lowest bid was selected, no mini tender exercise had been undertaken which is a requirement of EU funds and consequently a 25% correction penalty of the total contract value was applied.

#### Claim adjustments

An adjustment for £20,484 was made to the claim due to a 25% correction penalty of the total contract value of £81,934 being applied by WEFO following issues with the procurement process.

A Town Improvement Grant for £15k was also made ineligible. This issue was originally raised in the Wales Audit Office claim audit in January 2015 resulting in an adjustment.

Other adjustments applied totalled £6k. These were in relation to a lack of evidence and adequate audit trail to support various costs (£4k), and the remaining £2k being corrections by WEFO on the flat rate claimed on overheads, and for WWEC fees and Design and Management fees, as a result of a corporate exercise by WEFO. This has been applied to all projects.

#### **Recommendations implemented**

The recommendations received from WEFO are learning issues for future schemes and have been accepted by the Authority and will be taken forward into future funding programmes.

The original process for Third Party Procurement in place since 2012 has been reviewed and the new process recently presented to Grants Panel. The revisions are in the main to reflect current Procurement and European directives going forward, and to provide clear instructions to applicants on the minimum requirements, actions and supporting evidence required for different limits. i.e. From under £5k spend to above £4,104k. Guidance is included on avoiding conflicts of interest and actions required in the event of changes to specification of contracts.

The Authority has strengthened the role of Grants Panel by including the Chairs' of the 4 departmental Project Working Groups as members. The Project Working Groups have the responsibility for monitoring grants within their service area and their minutes are presented to Audit Committee.

### **Conclusion**

Following the audits WEFO have issued their final reports and made final payment on these schemes. All recommendations and feedback will be taken forward and applied to any new schemes within the new 2014-2020 programme.

The Authority is continuing to review and improve its grant management processes on an ongoing basis.