



Chief Executive
Annemarie O'Donnell
LLB DipLP

15
Chief Executive's Office
Glasgow City Council
City Chambers
George Square
Glasgow G2 1DU
Email: annemarie.odonnell@glasgow.gov.uk
Telephone: 0141 287 4522
Fax No: 0141 287 3627

Your Ref:
Our Ref: amod/dmd/sgvt/dickson

27 January 2016

Mr Graeme Dickson
Director General
Scottish Government
Via email: dgeel@gov.scot

Dear Mr Dickson

EUROPEAN STRUCTURAL FUNDS

I refer to your letter of 20 January regarding the above.

As requested, I have provided a copy of the Internal Audit report which was finalised and presented to me on 26 January. As you will see, the report concludes that Jobs and Business Glasgow (JBG) submitted claims for expenditure known to be ineligible, that assurances provided by JBG senior management were found to be untrue, and that the Council should refer these matters to Police Scotland. The Council has accepted this report and all of its recommendations.

The Internal Audit report identifies the failings within JBG and the deliberate attempts of staff to collude and submit fraudulent claims. Despite extensive monitoring of the projects by both the Council through monitoring visits and the Scottish Government through verification checks and audits, deliberately inaccurate evidence was submitted to the Council as the project sponsor and the Scottish Government as the managing authority.

Despite several meetings and discussions to identify an accurate claim figure the Council finally concluded that it could not place any confidence in the evidence submitted by JBG to support the claim, which meant we had to withdraw their expenditure from the final claims for the ESF and ERDF projects. However, we do not accept that this should have an adverse effect on the remaining projects which formed part of the Glasgow Works pipeline, for which neither we nor the Scottish Government have any evidence of wrongdoing. These projects were extensively monitored and we have no reason to consider this is anything other than an isolated incident relating to Jobs and Business Glasgow.

You will be aware from my letter of 3 December 2015 to JBG that the Council recorded its concerns over serious management failures in the governance and management of EU funds as well as its inability to accurately evidence time spent on the projects in question. The Council also suspended further EU funding until fully satisfied on the areas to be addressed. We have also currently removed JBG from our Strategic Intervention applications for the 2014-20 programme.

I received a response from the Chair of JBG on 24 December that a sub-committee had been set up to investigate the circumstances around the final claim and develop proposals that would give reassurance to both the Council and Scottish Government that JBG can be trusted with future EU funds. Despite accepting the seriousness of the matter, it appears that the sub-committee has made limited progress. When added to the conclusions of the Audit Report and your letter of 20 January, this has resulted in the Council agreeing special measures to take greater control of company actions so that investigations can be accelerated and the role and future of the company can be established.

The Council has therefore instructed the Board of JBG to suspend the Chief Executive and three senior managers pending completion of investigations. The Board has also been instructed to agree interim management measures. The Council has not taken this action lightly, but we believe this to be the correct approach if we are to protect the integrity of the European programme.

We have also engaged Ernst & Young LLP to assist us in reviewing the overall arrangements across the Council in respect of European funded projects. The objective of the engagement was to identify and understand the controls established by the Council over European funded projects and grant claims. The key findings from Ernst and Young and the recommended Action Plan are included within the attached Internal Audit report. We will implement the Action Plan in full as a matter of priority.

The Council accepts its responsibility as project sponsor and is confident that the remaining claim is valid. We have no reason to believe other delivery partners have acted in the same way as Jobs and Business Glasgow.

I trust that this information is helpful and would be happy to discuss at any time, given the urgency of the situation.

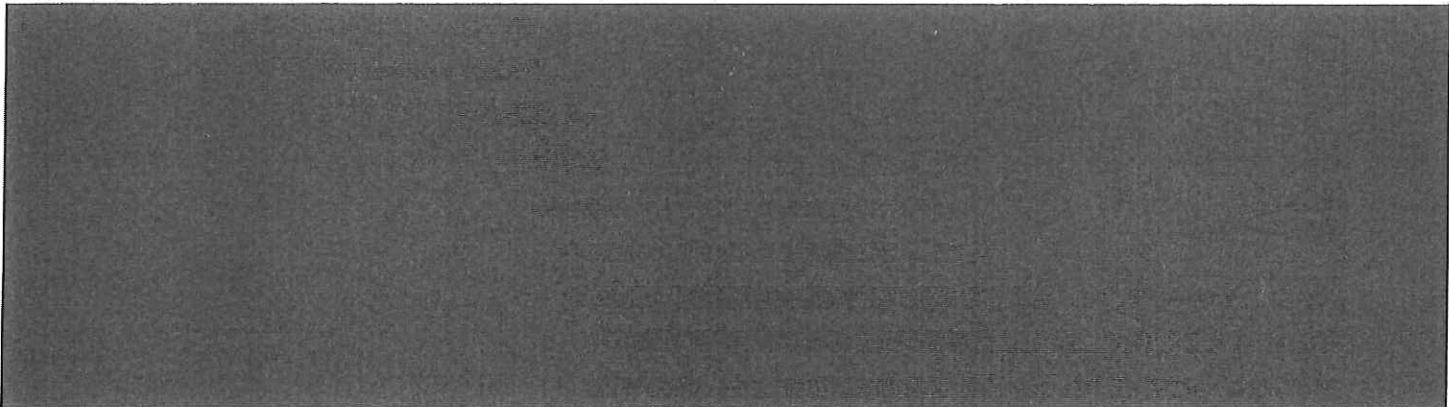
Yours sincerely



ANNEMARIE O'DONNELL
CHIEF EXECUTIVE

Encl

2.
16



European Funding

INTERNAL AUDIT

January 2016

PRIVATE AND CONFIDENTIAL



European Funding

Table of Contents

| | |
|---|---|
| 1 | Introduction |
| 2 | Background |
| 3 | Jobs & Business Glasgow |
| 4 | Review of Council's Systems and Controls |
| 5 | Action Plan |

European Funding

1. Introduction

1.1 The 2014/15 Annual Governance Statement reported that areas had been identified where European funding grant conditions had not been complied with and that audit work was ongoing. This report provides an update on these European funding issues and draws on the work Internal Audit has undertaken since then.

1.2 The report includes:

- background to the Council's role in relation to European funding;
- a summary of internal audit work undertaken following concerns over accuracy of claims submitted by Jobs and Business Glasgow (JBG); and
- an overview of work undertaken to date by Internal Audit and Ernst & Young LLP on the Council's systems and controls for ensuring compliance with European funding requirements.

2. Background

2.1 The Council is the lead authority for European funding in the city. This means that the Council is ultimately responsible for making claims for European funding, complying with the terms and conditions of funding, and delivering outcomes, either directly or through delivery partners.

2.2 Delivery of European-funded projects, and therefore the incurring of associated expenditure, may be undertaken by Council service departments, ALEOs and third party external

partners. As lead authority, the Council submits the overall grant claims for this funding to the Scottish Government and therefore has ultimate responsibility for ensuring these grant claims are for eligible expenditure, in line with funding terms and conditions.

2.3 Development and Regeneration Services (DRS) has responsibility in the Council for administering European funding received through the 2007-2013 European Social Fund (ESF) and European Regional Development Fund (ERDF) programmes. Total income and expenditure for the 2007-2013 programme is summarised below:

| £m | European Funding | Match Funding | Total project Expenditure |
|--------------|------------------|---------------|---------------------------|
| ESF | 21.6 | 29.3 | 50.9 |
| ERDF | 3.9 | 7.4 | 11.3 |
| Total | 25.5 | 36.7 | 62.2 |

2.4 Both programmes require compliance with the national rules of eligibility. These rules are highly prescriptive and require, for example, that employee costs being claimed need to relate to staff who worked 100% of their time on the project, or if they worked at less than 100% then their allocated time is supported by formal signed timesheets at the time the work was undertaken.

2.5 Compliance with these eligibility rules and grant conditions is the responsibility of the delivery partner, but the risk of clawback for any ineligible expenditure initially lies with the Council as lead authority. The Scottish Government and European Commission may also take into account significant areas of non-compliance when assessing other grant claims from the same lead authority, and also future bids for funding.

3. Jobs and Business Glasgow

- 3.1 The European Commission and the Scottish Government may undertake audits of lead authorities to monitor compliance with the eligibility rules and grant conditions. In May 2014, the Scottish Government carried out an Article 60b audit of the Enterprise Creation in Disadvantaged Communities (ECDC) project, which was being delivered by JBG.
- 3.2 In March 2015, the Scottish Government wrote to the Council's Chief Executive outlining concerns over the eligibility of expenditure. The focus of the concern centred on whether JBG employees had spent some of their time working on activities funded by the Department of Work and Pensions "New Enterprise Allowance" (NEA) project whilst being claimed at 100% from ECDC.
- 3.3 Internal Audit carried out an investigation and confirmed this to be the case. It was estimated that around 15% of the employees' time was actually spent on NEA activities, with the remaining 85% on ECDC, despite being claimed at 100% from ECDC. The Scottish Government confirmed that the absence of timesheets to evidence this split meant that all the associated ECDC employee costs were ineligible per the grant conditions.
- 3.4 Internal Audit was advised that these JBG employees had submitted a questionnaire to the Scottish Government auditors confirming that they had spent 100% of their time on the ECDC project. Given this contradicted evidence obtained during our internal audit, we initiated a wider review of all JBG European funded projects.
- 3.5 At the time of our audit JBG had 6 recent or live European-

funded projects. These are summarised below.

| £m | European Funding | Match Funding | Total project Expenditure |
|--------------|------------------|---------------|---------------------------|
| ESF | | | |
| YES | 1.030 | 1.280 | 2.310 |
| Roma | 0.336 | 0.419 | 0.755 |
| Bridging | 0.803 | 1.001 | 1.804 |
| ERDF | | | |
| Job Brokers | 0.637 | 0.956 | 1.593 |
| ECDC | 0.694 | 1.347 | 2.041 |
| EGG | 0.884 | 1.642 | 2.526 |
| Total | 4.384 | 6.645 | 11.029 |

- 3.6 Our audit work at JBG involved substantive procedures to confirm the accuracy of these six European grant claims and also a wider review of the systems and controls in place at JBG to ensure accurate grant claims are submitted in accordance with the grant conditions.

Substantive grant compliance findings

- 3.7 We asked JBG senior managers to review all JBG employees that had been included in grant claims for the above projects. For those included at 100% we requested managers to confirm that they did indeed work 100% on those projects. For those included at less than 100% we reviewed signed timesheets in evidence of the allocation. We also confirmed that no employees were included at more than 100% across all projects.
- 3.8 As a result of these inquiries, we identified JBG employees whose costs were claimed in full but spent less than 100% of their time on projects and did not complete timesheets. The

percentage of employee time spent on other projects during these periods varied from 10% to 100%.

- 3.9 Following an email trawl, audit evidence was also obtained that some JBG senior managers were intentionally allocating staff time to projects retrospectively in order to maximise the grant claim. In many cases, the employees did not work for the project in question at all, did not work for the project at the time being claimed, or did not have valid timesheets to support their allocation.
- 3.10 During subsequent fact finding interviews with these JBG senior managers, various reasons were given for these areas of non-compliance, ranging from a lack of awareness of the eligibility rules (or the importance of compliance) to a belief that in the round the amounts claimed were reasonable (for example some officers that had worked on a project had not been claimed, albeit there was no timesheet to evidence this).
- 3.11 As noted at 2.4, the European funding national grant conditions require employee costs to relate to employees that worked 100% on the project, or worked less than 100% but had completed accurate timesheets at the time to support any allocated part-cost. Therefore unless the employees worked 100% on the project, or worked less than 100% with their time supported by valid timesheets, then the whole amount claimed for those employees is ineligible over the life of the project, even if management understood them to have worked in part on the project. Applying these rules, and based on the assertions of JBG management, we estimated that JBG had claimed around £1.012m of ineligible expenditure.
- 3.12 It is also a Scottish Government requirement that for European funded projects, match funding should be spent

first. Therefore it is possible that if the amounts which should not have been claimed are removed from the claim calculation, the eligible spend may not exceed the agreed matched amounts. Applying this methodology we estimated that the total potential financial loss to JBG was around £2.2m.

Review of JBG arrangements for submitting grant claims

- 3.13 We reviewed the systems and controls in JBG for submitting accurate grant claims that comply with the grant conditions. The main findings from that review were:
- The claims were initially driven by the original budget assumptions, with a general desire to maximise draw down of funding to match budget assumptions.
 - It was the responsibility of a relatively junior finance officer to liaise with the senior manager for that project to determine the final claim. At times these decisions were retrospective and did not appear to be a true representation of the projects on which individual employees worked.
 - Roles and responsibilities for the creation and submission of grant claims were not properly formalised and there was insufficient senior management review of the grant claims prior to submission to the Council.
 - JBG has a Compliance Unit, however the focus of this team was on verifying the information required to evidence project outputs and outcomes. There was no verification of the financial compliance for these grant claims.
 - DRS have a process to review claims received from partners to ensure all required paperwork was present. However, inaccuracies in the claim by JBG would not have been apparent to DRS because DRS was reliant

- on JBG providing accurate information.
 - There was a mechanism in place to de-commit funds that had been approved by DRS but unable to be claimed. This process, whilst used in the past, was not used as it should have been in the cases identified.
- 3.14 We reported these matters to JBG in October 2015, recommending that:
- Roles and responsibilities covering all elements of the claim process should be reviewed to ensure full compliance with the eligibility criteria, including formal review and sign off by senior management.
 - The Compliance Unit should be reviewed with a view to expanding its role to include all aspects of compliance with grant conditions.
 - Training requirements for JBG employees are reviewed to ensure full awareness of grant conditions rules and the importance of full compliance.
 - Consideration should be given as to whether relevant JBG senior managers with responsibility for the projects should be subject to the JBG disciplinary procedure.
- 3.15 JBG senior management have noted that JBG delivered significant outputs relating to these projects. However, one of the main eligibility criteria for European funding is very clearly input based and this is what any clawback by the Scottish Government would be determined by. As such, the audit has focussed on the eligibility of input expenditure against this criteria, regardless of the outcomes achieved.

Additional audit procedures

- 3.16 On 20th November JBG had submitted a revised claim to DRS that only removed £297,000 of ineligible expenditure. This was the original estimate of ineligible expenditure should the Scottish Government allow JBG to retain their claim for parts of employees' time spent on projects despite there being an absence of timesheets. This approach had by this time been rejected by the Scottish Government. Therefore this claim included expenditure which JBG senior management knew to be ineligible. It is also our understanding that, at this time, the JBG Trustees were advised that the adverse financial impact for JBG was in the region of £297,000. The information for JBG Trustees was only corrected following intervention by the Council's Chief Executive and Executive Director of Financial Services.
- 3.17 On 25th November, another revised claim was then submitted by JBG removing the full £2.2m of ineligible expenditure that had been identified. The same day Internal Audit received a whistleblowing allegation that the assertions by JBG senior management provided to us as part of our audit fieldwork, and key to the £2.2m ineligible expenditure identified, were not accurate. Specifically, that the revised claims still included employees that had not worked 100% on a project (despite still being claimed as such), and that some timesheets in support of allocated costs were also inaccurate.
- 3.18 We therefore undertook a series of interviews with employees included on the revised JBG claims to confirm managers' assertions and the accuracy of the timesheets. For each project, we interviewed between 32% and 57% of all employees still included on the claim. A number of employees were identified who did not meet the eligibility criteria, with an error rate of between 0% and 83% for those

interviewed. This increased the total ineligible expenditure to around £3.3m.

- 3.19 Given the level of ineligible spend and the risk that any residual claim may still contain ineligible expenditure, DRS formed a view that there were no longer valid claims for any of the six JBG projects. The Council's Chief Executive wrote to the JBG Board on 3rd December confirming that the Council had therefore de-committed the projects. This results in a potential liability for JBG in 2015/16 in the region of £4.4m to £4.8m.
- 3.20 The JBG Board met on 9th December 2015. It is our view that the papers had elements of factual inaccuracy and failed to give a comprehensive assessment of the significance of the European funding issues identified, and the extent of the financial impact following the Council's decision to de-commit the JBG projects.
- 3.21 The extent of non-compliance with grant conditions by JBG is clearly significant and very serious:
- Instances were identified of senior JBG managers intentionally manipulating claims for expenditure to maximise income for JBG, in violation of the clear conditions of grant funding;
 - Despite the subsequent work of Internal Audit identifying clearly ineligible expenditure, a claim was submitted by JBG to the Council including this expenditure, which was known by JBG senior management to be ineligible;
 - During our audit, we received assurances from JBG senior managers that certain JBG employees worked 100% on projects. A whistleblowing allegation was

received on 25th November alleging that these assertions were not truthful, and that untruthful timesheets were also completed and signed off. Subsequent additional audit procedures corroborated these whistleblowing allegations;

- The Board of Trustees did not receive a full and accurate assessment of the significance of these matters at its Board meeting of 9th December.

Given that JBG submitted claims for expenditure known to be ineligible, and that assurances provided by senior managers were subsequently found to be untrue, it is recommended that these matters are referred to Police Scotland for further investigation [*Action plan #1*]. It is also recommended that the Internal Audit recommendations relating to JBG's arrangements are implemented prior to any further European funding being awarded [*Action plan #2*].

4. Review of the Council's systems and controls

- 4.1 The matters arising from our audit investigations at JBG are significant. The levels of non-compliance with the European funding rules have exposed the Council family to significant financial and reputational risks. An audit of European funding arrangements in the Council (as lead authority) was therefore agreed with the Chief Executive, Executive Director of Financial Services and Executive Director of DRS.
- 4.2 We engaged Ernst & Young LLP to assist us in reviewing the overall arrangements across the Council in respect of European funded projects. The overall objective of the engagement was to identify and understand the controls established by the Council over European funded projects and grant claims. The scope included: