

SHROPSHIRE COUNCIL AUDIT SERVICES

INTERNAL AUDIT REPORT

LOCAL ENTERPRISE PARTNERSHIP 2017/18

Assurance Level	Limited
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Customer	James Walton- Head of Finance, Governance and Assurance (Section 151 Officer)
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Distribution	Gill Hamer, Marches LEP Director Nick Alamanos, Marches LEP Programme Manager Valerie Hastie, Project Development Officer, Marches LEP
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Auditor	Mark Seddon
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Fieldwork dates	October 2017
Debrief meeting	6 th November 2017
Draft report issued	4 th December 2017
Responses received	15 th December 2017
Final report issued	19 th December 2017

Introduction and Background

1. As part of the approved internal audit plan for 2017/18 Audit Services have undertaken a review of Local Enterprise Partnership arrangements to obtain funding and then to deliver and monitor projects.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Audit Services would like to express their thanks to the officers who assisted during the course of the audit.

Scope of the Audit

4. The scope, incorporating the objectives of the audit, was agreed with key contacts at the commencement of the audit.

To assess the progress made implementing the recommendations made in the previous audit and to carry out a review of the arrangements to obtain funding and then to deliver and monitor projects.

5. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved:
 - The recommendations made and agreed in the previous audit have been implemented.
 - There are procedures to ensure that income is received for administration and project funding.
 - There are procedures to ensure that the grant income received is correctly administered.
 - There are adequate performance and project management arrangements.
6. The audit was delivered on time and within budget.

Audit Opinion

7. An opinion is given on the effectiveness of the control environment. This indicates the level of assurance that can be given based upon testing and evaluation of the system. This opinion will be reported to the Audit Committee and will inform the Annual Governance Statement which is included in the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

As a result of the evaluation and testing of the controls that are in place in the areas examined, from work undertaken Audit Services are able to give the following assurance opinion:

Limited	Whilst there is basically a sound system of control in place, the system contains weaknesses which leave some risks unaddressed and there is evidence of non-compliance with some key controls.
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8. Responsibility for the maintenance of a sound system of internal control rests with management. The audit process is designed to provide a reasonable chance of discovery of material weaknesses in internal control by means of sample testing. It cannot however guarantee absolute assurance against all material weaknesses, the overriding of management controls, collusion, or instances of fraud or irregularity.
9. Audit recommendations are rated Fundamental, Significant, Requires Attention or Best Practice according to their level of priority. Details are included in the Exception Report attached at **Appendix 1** and the Action Plan attached at **Appendix 2**. Implementation of these recommendations will serve to address the risks identified and enhance the procedures that are currently in place. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
3	0	3	0	0

10. The review identified the following areas where appropriate management controls were in place and operating satisfactorily and, upon which, positive assurance can be given:

✓	There are procedures to ensure that income is received for administration and project funding.
✓	There are procedures to ensure that the grant income received is correctly administered.

11. The audit work identified a number of significant issues leading to the following recommendations:

- It should be ensured that the expected outputs are clearly stated and agreed in the Growth deal submission to Central Government, the agreements with the organisations delivering the projects and the submissions made by the organisations. Any discrepancies between different documentation should be reviewed and adjustments made and agreed as appropriate.
- The Memorandum of Understanding between Shropshire Council and the Marches Local Enterprise Partnership (LEP) should be updated to reflect current practice and include:-
 - Reference to all funds the Council is the Accountable Body for.
 - Details of any Service Level Agreement between the LEP and the Council .i.e. provision of a Finance function.
 - Arrangements in place to cover the position of the Council when employing staff on behalf of the LEP.
 - The policy of retaining reserves to fund Core Team expenditure.

(Updated from the recommendation made and agreed in the 2016/17 audit).

This recommendation is directed to the Section 151 Officer at Shropshire Council.

- The work to produce a project management tool and supporting documentation to ensure that there is effective project management from the project application to the realisation of outputs should be progressed to completion and introduced as soon as possible.

12. Recommendations accepted by management at the previous audit have been reviewed and are detailed below:

Number of recommendations accepted by management at the last audit	5
Recommendations implemented	3
Recommendations partially implemented	0
Recommendations superseded	1
Recommendations not actioned	1

Reasonable progress has been made in the implementation of previous recommendations. Recommendations which remain outstanding are included in the attached Exception Report and Action Plan.

Audit Approach

13. The approach adopted for this audit included:
- Review and documentation of the system.
 - Identification of key controls.
 - Follow up of previous recommendations.
 - Tests of controls to confirm their existence and effectiveness.
 - Evaluation of the controls and identification of weaknesses and potential risks arising from them.
14. Internal Audit report by exception; the attached report at **Appendix 1** identifies only those areas where control evaluation and audit testing revealed control weaknesses and/or errors. Recommendations to improve controls or enhance existing practice are detailed against each exception and the associated risk, and are also included in the Action Plan at **Appendix 2**. A more detailed report covering all of the work undertaken can be provided on request. This will be, available in a working paper format.
15. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action that has been taken to address identified control weaknesses.

Ceri Pilawski
Head of Audit

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INTERNAL AUDIT EXCEPTION REPORT FOR LOCAL ENTERPRISE PARTNERSHIP 2017/18

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
Management Control Objective: The recommendations made and agreed in the previous audit have been implemented.					
1.1	<p>Previous Recommendation 4: The Memorandum of Understanding between Shropshire Council and the Marches LEP should be updated to reflect current practice and include:-</p> <ul style="list-style-type: none"> • Reference to all funds the Council is the Accountable Body for. • Details of any Service Level Agreement between the LEP and the Council .i.e. provision of a Finance function. • Arrangements in place to cover the position of the Council when employing staff on behalf of the LEP. <p>This recommendation is directed to</p>	A failure to update legal documents may mean the Council would be liable for a failure in a project for a fund they are responsible for resulting in financial losses.	1	Significant	<p>The Memorandum of Understanding between Shropshire Council and the Marches Local Enterprise Partnership (LEP) should be updated to reflect current practice and include:-</p> <ul style="list-style-type: none"> • Reference to all funds the Council is the Accountable Body for. • Details of any Service Level Agreement between the LEP and the Council .i.e. provision of a Finance function. • Arrangements in place to cover the position of the

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	<p>the Section 151 Officer at Shropshire Council.</p> <p>Findings:</p> <p>It was identified in the previous audit that a comprehensive Memorandum of Understanding is needed because Shropshire Council is the Accountable body for not just the Growing Places Fund, it is also responsible for the Marches Investment Fund and this is not currently reflected in the Memorandum of Understanding. It would also be appropriate to clarify in the Memorandum of Understanding the Local Enterprise Partnership (LEP) policy of holding budget reserves for Core Team Funding.</p> <p>An updated Memorandum of Understanding between Shropshire Council and the LEP has not been completed.</p>				<p>Council when employing staff on behalf of the LEP.</p> <ul style="list-style-type: none"> • The policy of retaining reserves to fund Core Team expenditure. <p>(Updated from the recommendation made and agreed in the 2016/17 audit).</p> <p>This recommendation is directed to the Section 151 Officer at Shropshire Council.</p>
Management Control Objective: There are procedures to ensure that the grant income received is correctly administered.					
3.1	A review was carried out of a sample of five agreements with organisations and in particular the performance	A failure to clearly state the expected outputs associated with the delivery of the project will lead to	2	Significant	It should be ensured that the expected outputs are clearly stated and agreed in the

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	<p>outputs recorded in the agreements. It was identified that-</p> <p>The 'Oxon Link Road' agreement states expected outputs of 2,800 jobs to be created and 750 housing units. The project status report for August 2017 says 171 housing units but nothing in respect of jobs. The Growth Deal submission to Central Government in March 2014 states that expected outputs are 2,885 jobs and 750 housing units which is different to the agreement.</p> <p>The 'Skills MCMT' agreement states expected outputs of 684 apprenticeships, 1,172 qualifications and 279 business supported. The project status report dated July 2017 states expected outputs of 703, 1,172 and 279 respectively. The first outputs are due to be realised in 2017/18 and the July project status report indicates that none were achieved to date. Therefore the outputs recorded on the agreement do not agree with the forecast outputs recorded on the project status report.</p> <p>The 'Skills Holme Lacy' agreement</p>	<p>a lack of agreement of what outputs are expected which could result in disputes and difficulty monitoring whether the expected outputs have been achieved.</p>			<p>Growth deal submission to Central Government, the agreements with the organisations delivering the projects and the submissions made by the organisations. Any discrepancies between different documentation should be reviewed and adjustments made and agreed as appropriate.</p>

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	<p>states expected outputs of 40 additional apprentices recruited and a higher engineering course developed but does not state numbers for apprenticeships, qualifications and business supported. The project status report states expected original and revised outputs for apprenticeships, qualifications and business supported. Therefore the outputs recorded on the agreement do not agree with the forecast outputs recorded on the project status report. The Growth Deal submission to Central Government in March 2014 does not appear to clearly state expected skills outputs.</p> <p>There are no outputs stated on the Shrewsbury Integrated Transport Package agreement. There are outputs recorded on the project status report for 2,130 housing units and 1,055 jobs created/ safeguarded. The first outputs appear to be realisable in 2016/17 but there is no evidence of this recorded on the project status report. The Growth Deal submission to Central Government in March 2014 states that expected outputs are 4,500 jobs and 4,200 housing units</p>				

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	<p>which is different to the agreement.</p> <p>There are outputs recorded in the Marches Broadband Telford agreement but these are only stated to quarter 2 of 2016/17 there are further outputs stated on a another table in a different format. The final two amounts for the final phases were agreed to the forecast figures on the project status report i.e. THP* 1,013 and 1,349. The Growth Deal submission to Central Government in March 2014 does not appear to clearly state expected broadband outputs.</p> <p>*THP - Total Homes Pathed (Additional Homes where broadband is now available if required)</p>				
Management Control Objective: There are adequate performance and project management arrangements.					
4.1	The procedures to monitor project expenditure, milestones reached and outputs have not been fully developed. Monitoring has been undertaken to date by way of quarterly project reports but testing at 3.1 found that this was not robust.	A failure to establish definitions for outputs and effective project management will lead to a lack of accurate data and ineffective project management which could result in outputs not being delivered as agreed within the funding provided.	3	Significant	The work to produce a project management tool and supporting documentation to ensure that there is effective project management from the project application to the realisation of outputs should be progressed to completion

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	<p>It is acknowledged that work has commenced to produce a project management tool and supporting documentation to ensure that there is effective project management from the project application to the realisation of outputs. The proposed management procedures have been approved by the Department for Communities and Local Government (DCLG) as the gold standard and are expected to enable the monitoring of expenditure, milestones reached and outcomes achieved.</p>				<p>and introduced as soon as possible.</p>

ACTION PLAN FOR LOCAL ENTERPRISE PARTNERSHIP 2017/18

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
1.1	1	<p>The Memorandum of Understanding between Shropshire Council and the Marches Local Enterprise Partnership (LEP) should be updated to reflect current practice and include:-</p> <ul style="list-style-type: none"> • Reference to all funds the Council is the Accountable Body for. • Details of any Service Level Agreement between the LEP and the Council .i.e. provision of a Finance function. • Arrangements in place to cover the position of the Council when employing staff on behalf of the LEP. • The policy of retaining reserves to fund Core Team expenditure. <p>(Updated from the recommendation made and agreed in the 2016/17 audit).</p> <p>This recommendation is directed to the Section 151 Officer at Shropshire</p>	Significant	Yes	<p>The Memorandum of Understanding was raised as part of a scheduled finance meeting (05/12/17) between the LEP and James Walton (Section 151 Officer, Shropshire Council).</p> <p>The document has been drafted with input from Shropshire Council's Legal Team. James Walton will circulate to Section 151 Officers from Telford & Wrekin Council and Herefordshire Council.</p>	James Walton	31/03/2018

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
		Council.					
3.1	2	It should be ensured that the expected outputs are clearly stated and agreed in the Growth deal submission to Central Government, the agreements with the organisations delivering the projects and the submissions made by the organisations. Any discrepancies between different documentation should be reviewed and adjustments made and agreed as appropriate.	Significant	Yes	<p>The LEP team has recently undertaken a review of its Programme Management processes.</p> <p>This included:</p> <ul style="list-style-type: none"> • Agreeing definitions and reporting evidence for Outputs with Central Government. • A new approach towards the development of Grant Agreements. • Regular structured Monitoring Visits. • Updated Status/Claim forms. 	Nick Alamanos/ Gill Hamer	31/01/2018

Rec Ref.	Rec No.	Recommendation	Rec Rating	Accepted Yes/No/Partially	Management Response	Lead Officer	Date to be Actioned
					It is anticipated the implementation of the above will provide a consistent and transparent approach to the monitoring of all Growth Deal projects – including outputs.		
4.1	3	The work to produce a project management tool and supporting documentation to ensure that there is effective project management from the project application to the realisation of outputs should be progressed to completion and introduced as soon as possible.	Significant	Yes	<p>A Project Management tool has been created and is currently being updated to incorporate comments from the Accountable Body.</p> <p>This will cover the recording of financial claims, completed outputs, milestones achieved and monitoring visits undertaken. Providing the LEP with a clear approach to reporting project/programme activity.</p>	Nick Alamanos/ Gill Hamer	31/01/2018