



# SHROPSHIRE COUNCIL AUDIT SERVICES

*"ADDING VALUE"*

## INTERNAL AUDIT REPORT LOCAL ENTERPRISE PARTNERSHIP 2018/19

**Assurance Level** | **Limited**



## Audit Data

<b>Customer:</b>	<b>James Walton- Head of Finance, Governance and Assurance (Section 151 Officer)</b>
<b>Report Distribution:</b>	<b>Gill Hamer, Marches LEP Director Nick Alamanos, Marches LEP Programme Manager Sharron Stubbs, Shropshire Council, Accountant</b>
<b>Auditor(s):</b>	<b>Mark Seddon</b>
<b>Fieldwork Dates:</b>	<b>September and October 2018</b>
<b>Debrief Meeting:</b>	<b>14th February 2019</b>
<b>Draft Report Issued:</b>	<b>14th December 2018</b>
<b>Responses Received:</b>	<b>21st February 2019</b>
<b>Final Report Issued:</b>	<b>13th March 2019</b>

Assurance		
Previous Assurance Level	Current Assurance Level	Direction of Travel
<b>Limited</b>	<b>Limited</b>	<b>No change in control environment *</b>

\* The report acknowledges that there has been a considerable amount of work done to develop a robust monitoring system going forward to ensure the accuracy of performance monitoring however there remains concerns over the accuracy of the information in growth deals one and two (value £83 million) which has yet to be fully addressed, as resources have concentrated on the current growth deal three funding. Therefore, despite the work undertaken the overall assurance level now remains Limited.

The work carried out to date has been summarised by the Marches LEP Programme Manager and includes:

- Developed structured Monitoring Visits.
- New Funding Agreement templates have been developed for Growth Deal 3 – including bespoke clauses.
- Funding Agreement Checklist – VAT Registration, Policies, Procedures, State Aid Position, Confirmation/Evidence Letter of Match Funding etc
- Output Verification sheets with definitions etc.
- New Claim forms.
- Programme Management Tool – to help log current activity, Outputs, Milestones, LGF Funds and Private Sector Match.
- Reviewed the staffing structure to effectively resource Growth Deal.

## Introduction and Background

1. As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Local Enterprise Partnership.
2. This audit has been conducted in accordance with the Public Sector Internal Audit Standards.
3. Maintenance of the control environment is the responsibility of Management. The audit process is designed to provide a reasonable chance of discovering material weaknesses in internal controls. It cannot however, guarantee absolute assurance against all weaknesses including overriding of management controls, collusion, and instances of fraud or irregularity.
4. Audit Services would like to thank officers who assisted during the audit.
5. The audit was delivered on time and within budget.

## Scope of the Audit

6. The following scope was agreed with key contacts at the beginning of the audit:  
  
To review the progress made implementing the recommendations made in the previous audit and to carry out a review of the performance monitoring and project management arrangements.
7. The scope includes a follow up of recommendations made in the 2017/18 audit. Where not implemented fully, these are revisited and the findings included in this report.
8. Audit work was undertaken to give assurance on the extent to which the following management control objectives are being achieved. Objectives with a ✓ demonstrate that appropriate management controls are in place and upon which positive assurance can be given. Objectives with an X are those where the management controls are not being achieved:  
  
X     The recommendations made in the 2017/18 audit have been implemented as agreed. The previous audit included recommendations in the following areas-
  - The recommendations made in the 2016/17 audit had been implemented.
  - There are procedures to ensure that the grant income is correctly administered.
  - There are adequate performance and project management arrangements.

- √ There are adequate performance monitoring and project management arrangements.

## Assurance Level and Recommendations

9. An opinion is given on the effectiveness of the control environment reviewed during this audit. The level of assurance given is based upon sample testing and evaluation of the controls in place. This will be reported to the Audit Committee and will inform the Annual Governance Statement which accompanies the Annual Statement of Accounts. There are four levels of assurance; Good, Reasonable, Limited and Unsatisfactory.

Audit Services can give the following assurance level on the area audited:

<b>Limited</b>	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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The system control weaknesses relate to Growth Deals 1 and 2.

The system controls have improved for Growth Deal 3.

10. Recommendations are made where control weaknesses, risks or areas for improvement have been identified and are of sufficient importance to merit being reported to you in accordance with auditing standards. There are four categories of recommendation; Best Practice, Requires Attention, Significant and Fundamental. Detailed findings and a definition of the recommendation categories are included in the Exception Report at **Appendix 1**. The following table summarises the number of recommendations made in each category:

Total	Fundamental	Significant	Requires Attention	Best Practice
2	0	2	0	0

11. A summary of the recommendations, together with the agreed management responses are included at **Appendix 2**. Implementation of these recommendations will address the risks identified and improve the controls that are currently in place.
12. The audit work identified several significant issues leading to the following recommendations:
  - 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.
    - Reference to the new General Data Protection Regulations.

(Updated from the recommendation previously made and agreed in the 2017/18 audit

and originally recommended in the 2016/17 audit).

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

- It should be ensured that the expected outputs are clearly stated in the performance submissions to Central Government, the revised agreement variations 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. Once updated all monitoring should be fed into the new performance monitoring tool to ensure a consistent and evidenced approach across all growth deals.

(Updated from the recommendation previously made and agreed in the 2017/18 audit).

13. The status of the recommendations accepted by management at the previous audit has been reviewed and is summarised in the table below:

Number of recommendations accepted by management at the last audit	3
Recommendations implemented	1
Recommendations partially implemented	0
Recommendations superseded	0
Recommendations not implemented	2

Limited progress has been made in the implementation of previous recommendations though it is accepted that a considerable amount of work has been undertaken to address the weaknesses around project management. The revised process is considered to be sound but has yet to be fully implemented across all growth deals. Recommendations which remain outstanding are repeated in the Exception Report and Action Plan.

## Audit Approach

14. The approach adopted for this audit included:
- Review and documentation of the system.
  - Identification of the risks to achieving the business outcomes and associated key controls.
  - Follow up of previous recommendations.
  - Testing of controls to confirm their existence and effectiveness.
  - Identification of weaknesses and potential risks arising from them.
15. As Internal Audit report by exception, only those areas where control weaknesses and/or errors have been identified are included in this report (**Appendix 1**). Recommendations to improve controls or enhance existing practice are detailed against each finding and the associated risk. Your Action Plan is included at **Appendix 2**. A more detailed report covering all the work undertaken can be provided on request.
16. In accordance with the Public Sector Internal Audit Standards, recommendations will be followed up to evaluate the adequacy of management action taken to address

identified control weaknesses.

Ceri Pilawski  
Head of Audit

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## INTERNAL AUDIT EXCEPTION REPORT FOR LOCAL ENTERPRISE PARTNERSHIP 2018/19

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
<b>Management Control Objective: The recommendations made in the previous audit have been implemented as agreed.</b>					
1.1	<p><b>Previous Recommendation 1:</b> 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"> <li>• Reference to all funds the Council is the Accountable Body for.</li> <li>• Details of any Service Level Agreement between the LEP and the Council i.e. provision of a Finance function.</li> <li>• Arrangements in place to cover the position of the Council when employing staff on behalf of the LEP.</li> <li>• The policy of retaining reserves to fund Core Team expenditure.</li> </ul>	<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.</p>	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"> <li>• Reference to all funds the Council is the Accountable Body for.</li> <li>• Details of any Service Level Agreement between the LEP and the Council i.e. provision of a Finance function.</li> <li>• Arrangements in place to cover the position of the Council when employing staff on behalf of the LEP.</li> </ul>

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	<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> <p><b>Findings:</b> It has been identified in previous audits 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. An updated draft was prepared but needs to be updated to reflect the new data protection regulations.</p> <p>An updated Memorandum of</p>				<ul style="list-style-type: none"> <li>• The policy of retaining reserves to fund Core Team expenditure.</li> <li>• Reference to the new General Data Protection Regulations.</li> </ul> <p>(Updated from the recommendation previously made and agreed in the 2017/18 audit and originally recommended in the 2016/17 audit).</p> <p>This recommendation is directed to the Section 151 Officer at Shropshire Council.</p>



Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	Understanding between Shropshire Council and the LEP has not been completed at the time of this audit.				
<b>Management Control Objective: There are adequate performance monitoring and project management arrangements.</b>					
2.1	<p><b>Previous Recommendation 2:</b> 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.</p> <p><b>Findings:</b></p> <p>The main function of the Marches Local Enterprise Partnership is the responsibility for the investment of just over £104 million into the local economy through various projects. Growth Deals 1 and 2 amounted to £83 million and Growth Deal 3 amounted to £21.9 million. The Growth Deal 1 funding was</p>	A failure to clearly state the expected outputs associated with the delivery of the project will lead to a lack of agreement of what outputs are expected which could result in disputes and difficulty monitoring whether the expected outputs have been achieved.	2	Significant	<p>It should be ensured that the expected outputs are clearly stated in the performance submissions to Central Government, the revised agreement variations 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. Once updated all monitoring should be fed into the new performance monitoring tool to ensure a consistent and evidenced approach across all growth deals.</p> <p>(Updated from the recommendation previously made and agreed in the</p>

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	<p>allocated in 2014 and the processes for monitoring the actual outputs against those expected should have been in place at this stage.</p> <p>There have been no variations to the Growth Deal 1 and 2 project agreements and the Growth Deal 3 project agreements have yet to be finalised except for the Skills projects so there are no agreed forecast outputs to report. The agreements with the colleges for Growth Deal 3 skills funding have been finalised but there will need to be contract variations because of Central Government guidance in October 2017, new principals at the colleges and the merger of several colleges.</p> <p>The initial Strategic Economic Plan (SEP) which sets out the Local Enterprise Partnership (LEP) bid for Central Government funding were submitted with the original LEP bids and will not be resubmitted. The outputs will be recorded in the Growth Deal 1 and 2 project agreement variations and the Growth Deal 3 project agreements</p>				2017/18 audit).

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	<p>and these agreed forecast outputs will then be reported to Central Government in the quarterly submissions.</p> <p>The outputs previously submitted to Central Government and which have been recorded on the 2017/18 quarter 4 return as '15-17' in respect of 'Housing' and 'Jobs' should be reviewed to identify what they are based upon and any corrections should be made in future returns.</p> <p>There is now a project management spreadsheet tool which monitors the four key elements of the projects i.e. expenditure, match funding, milestones and outputs. The project management tool was reviewed during the audit and is considered to provide an effective basis for the management projects. The project management tool has been developed but work is on-going to establish the monitoring for Growth Deals 1 and 2 where outputs should now be beginning to be realised. It is acknowledged that the completion of the agreements with the Growth Deal 3 projects and the completion</p>				

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	of variations to the Growth Deal 1 and 2 agreements will enable the monitoring to be progressed.				

## ACTION PLAN FOR LOCAL ENTERPRISE PARTNERSHIP 2018/19

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	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"> <li>• Reference to all funds the Council is the Accountable Body for.</li> <li>• Details of any Service Level Agreement between the LEP and the Council i.e. provision of a Finance function.</li> <li>• Arrangements in place to cover the position of the Council when employing staff on behalf of the LEP.</li> <li>• The policy of retaining reserves to fund Core Team expenditure.</li> <li>• Reference to the new General Data Protection Regulations.</li> </ul> <p>(Updated from the recommendation previously made and agreed in the 2017/18 audit and originally recommended in the 2016/17 audit).</p>	Significant	<p>There will be a retrospective document which will be signed to cover the period to 31/3/19.</p> <p>This document has been revised to the satisfaction of the individual partner Authorities.</p> <p>There is a draft of new a Service Level Agreement for the new Company to formalise the position with regards to the service provided by Shropshire Council.</p> <p>There will also be Articles and Schemes of Delegation for the new company.</p>	Gill Hamer/ James Walton	June 2019

Rec Ref.	Rec No.	Recommendation	Rec Rating	Proposed Management Action	Lead Officer	Date to be Actioned
		This recommendation is directed to the Section 151 Officer at Shropshire Council.				
2.1	2	<p>It should be ensured that the expected outputs are clearly stated in the performance submissions to Central Government, the revised agreement variations 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. Once updated all monitoring should be fed into the new performance monitoring tool to ensure a consistent and evidenced approach across all growth deals.</p> <p>(Updated from the recommendation previously made and agreed in the 2017/18 audit).</p>	Significant	<p>The Deeds of Variation to the Growth Deal One and Two funding agreements are not yet signed yet but they will be signed by 31/3/19.</p> <p>The Deeds of Variation will detail the output and match funding requirements. Legally the Deeds of Variation to the original agreements were the only option available.</p> <p>There was no guidance from Central Government until October 2017 regarding how to define an output e.g. how to measure a job created.</p> <p>There will be a submission for homes and jobs outputs for the first time at the end of the 2018/19 financial year for the final quarter.</p> <p>The skills and broadband outputs have been resolved.</p>	Gill Hamer/ Nick Alamanos	March 2019

