

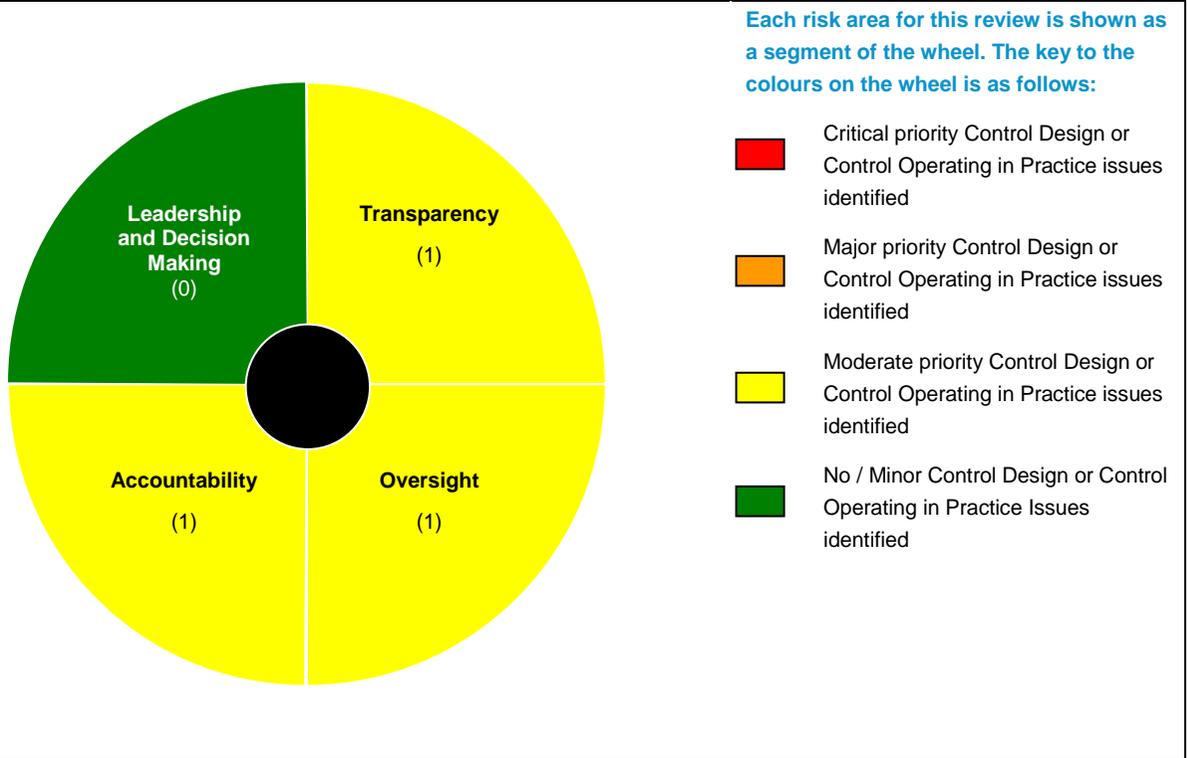
Final Internal Audit Report 2017/18 – South East Local Enterprise Partnership (COR16)

1. Executive Summary

Function: Corporate and Customer Services Audit Sponsor: Margaret Lee, Executive Director for Corporate and Customer Services Distribution List: Margaret Lee; Adam Bryan, Managing Director of SELEP; Paul Turner, Director for Legal and Assurance; Stephanie Mitchener, Head of Finance – Corporate and Strategic Partnerships; Suzanne Bennett, Senior Finance Business Partner; Kim Cole, Principal Lawyer – Commercial Projects; Cllr. Bentley, Deputy Leader and Cabinet Member for Infrastructure; Dan Cooke, External Audit Final Report Issued: 22 May 2018 Date of last review: No previous coverage	Overall Opinion ADEQUATE ASSURANCE 	Number of Control Design Issues Identified 0 Critical 0 Major 2 Moderate 0 Low	Number of Control Operating in Practice Issues Identified 0 Critical 0 Major 1 Moderate 0 Low	Number of Recommendations 3 Made 0 Rejected N/A Critical Rejected N/A Major Rejected
	Direction of Travel No previous coverage			

Scope of the review and limitations: This audit reviewed the control arrangements in place to ensure ECC effectively fulfils its role as Accountable Body.
Limitation: This audit was not an audit more widely of SELEP itself e.g. its governance, strategy, of specific decisions made, or its effectiveness.

Critical and Major Findings and Recommendations
 There are no critical or major findings arising from this review



Auditor: Simon Martin Audit Manager: Greg Mortimer Head of Assurance: Paula Clowes Fieldwork Completed: 28 March 2018 Draft Report Issued: 09 May 2018 Management Comments Expected: 21 May 2018 Management Comments Received: 16 May 2018 Final Report: 22 May 2018		Issues raised and officers responsible for implementation:						
		Name	Critical	Major	Moderate	Low	Total	Agreed
		Stephanie Mitchener – Head of Finance and Gareth Rott - Management Reporting Business Partner	-	-	1	-	1	1
		Stephanie Mitchener – Head of Finance	-	-	1	-	1	1
	Margaret Lee – Executive Director for Corporate and Customer Services	-	-	1	-	1	1	
		Releasing Internal Audit Reports: All distributed draft and final reports remain the property of the respective Director and the Executive Director for Corporate and Customer Services. Approval for distributing this report should be sought from the relevant Director. Care must be taken to protect the control issues identified in this report. Risk Management: The management of the following risks has been reviewed in this audit. Where appropriate, the Audit Sponsor is responsible for adding new risks identified to the relevant risk register.						
Risk Ref	Risk					Risk Already Identified	Risk Managed	
Unregistered Risks Identified & Audited								
N/A	Leadership and Decision Making Where the LEP's assurance framework does not facilitate effective leadership and decision making e.g. through appropriate Boards, it may lead to objectives and or outcomes not being met, potentially resulting in external scrutiny and or reputational damage to partners and or ECC as the Accountable Body.					N/A	●	
N/A	Transparency Where the LEP's assurance framework does not set out the need for recording and publishing appropriate information and declarations, it may lead to limited openness and transparency, potentially resulting in criticism from stakeholders and or non-compliance with the National Assurance Framework					N/A	●	
N/A	Accountability Where ECC in its capacity as Accountable Body does not provide an effective financial framework, it may lead to the LEP not being open and accountable, potentially resulting in adverse external audit opinion and or non-compliance with the National Assurance Framework.					N/A	●	
N/A	Oversight Where ECC in its capacity as Accountable Body does not have robust oversight arrangements in place, it may lead to less effective business case development, project options, project management and Value for Money, potentially resulting in the LEP not meeting its aims and objectives and or meeting associated funding conditions					N/A	●	

2. Basis of our opinion and assurance statement

Risk rating	Assessment rationale
 Critical	Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ Significant financial loss (through fraud, error, poor value for money) ▪ Serious safeguarding breach ▪ Life threatening or multiple serious injuries ▪ Catastrophic loss of service ▪ Failure of major projects ▪ Critical Information loss leading to Information Commissioner's Office (ICO) referral ▪ Reputational damage – Intense political and media scrutiny i.e. front-page headlines, television coverage. ▪ Possible criminal, or high profile, civil action against the Council, Members or officers. ▪ Intervention by external agencies <p>Remedial action must be taken immediately</p>
 Major	Major in that failure to address the issue or progress the work could lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ High financial loss (through fraud, error, poor value for money) ▪ Safeguarding breach ▪ Serious injuries or stressful experience requiring medical treatment, many work days lost. ▪ Significant disruption to service (Key outcomes missed, some services compromised. Management action required to overcome medium term difficulties) ▪ Major Information loss leading to internal investigation ▪ Reputational damage – Unfavourable external media coverage. Noticeable impact on public opinion. ▪ Scrutiny required by external agencies <p>Remedial action must be taken urgently</p>
 Moderate	Moderate in that failure to address the issue or progress the work could lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ Medium financial loss (through fraud, error or poor value for money) ▪ Significant short-term disruption of non-core activities ▪ Scrutiny required by internal committees. ▪ Injuries or stress level requiring some medical treatment, potentially some work days lost ▪ Reputational damage – Probable limited unfavourable media coverage. <p>Prompt specific action should be taken</p>
 Low	Low in that failure to address the issue or progress the work could lead to one or more of the following occurring: <ul style="list-style-type: none"> ▪ Low financial loss (through error or poor value for money) ▪ Minor errors in systems/operations or processes requiring action or minor delay without impact on overall service delivery schedule. Handled within normal day to day routines. ▪ Reputational damage – Internal review, unlikely to have a wider impact. <p>Remedial action is required</p>
Assurance Level	Description
Good	Good assurance – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be of Low risk rating. Any Moderate recommendations would need to be mitigated by significant strengths elsewhere.
Adequate	Adequate assurance – whilst there is basically a sound system of control, there are some areas of weakness, which may put the system/process objectives at risk. There are Moderate recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any Major recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
Limited	Limited assurance – there are significant weaknesses in key areas in the systems of control, which put the system/process objectives at risk. There are Major recommendations or a number of moderate recommendations indicating significant failings. Any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No	No assurance – internal controls are generally weak leaving the system/process open to significant error or abuse or reputational damage. There are Critical recommendations indicating major failings

Auditors' Responsibilities It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems. We shall endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, Internal Audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

3. Recommendations and Action Plan

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
Accountability: Control Design – evidence to support transfers of grant to ECC					
1.	<p>Journals transferring money from the SELEP external fund codes to the ECC county revenue fund codes are not supported by evidence of, or reference to, the relevant Accountability Board decision approving the grant award to ECC.</p> <p>The standard practice to journal transfer grant monies from grant control accounts into operational cost centres without seeking further approval from relevant service management and evidence is also applied to draw downs of SELEP-related grants awarded to ECC.</p> <p>The SELEP Assurance Framework requires ECC to ensure it does not use SELEP funds for its own purposes.</p> <p>The movement of grant money from the SELEP grant control account into ECC's own cost centres therefore needs a robust audit trail to justify such action. At present the journal transfer process for SELEP grants awarded to ECC does not include any additional evidence or</p>	<p>ECC does not clearly demonstrate that it is not using SELEP funds for its own purposes leading to non-compliance with the assurance framework.</p> <p>Failure to meet the responsibilities of the Accountable Body could lead to criticism from central government and reputational damage to ECC.</p>	<p>The Journal Transfer template should include appropriate instruction to ensure that transfers of SELEP grants into ECC cost centres is adequately supported by reference to, or evidence of, the SELEP Accountability Board decision awarding the grant to ECC and the amount being transferred.</p>	<p>● Moderate</p>	<p>Agreed: Yes</p> <p>Action to be taken: The process will be revised to ensure approval from the SELEP Accountability Board is referenced for all journal movements of grants awarded by SELEP to ECC.</p> <p>Additional Resources Required for Implementation: No</p> <p>Responsible Officer: Stephanie Mitchener – Head of Finance Corporate and Strategic Partnerships and Gareth Rott – Management Reporting Business Partner</p> <p>Target Date: 30 June 2018</p>

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
	referencing to the relevant Accountability Board decision to support the transfer.				
Transparency: Operating effectiveness – publishing SELEP annual accounts and audit results					
2.	SELEP’s 2016/17 accounts and audit results are not published on its website.	Lack of required transparency about the use of public funds potentially resulting in criticism from stakeholders and or non-compliance with the National Assurance Framework	Publish SELEP’s 2016/17 accounts and audit results on its website.	● Moderate	Agreed: Yes Action to be taken: The accounts and audit results will be published. Additional Resources Required for Implementation: No Responsible Officer: Stephanie Mitchener – Head of Finance Corporate and Strategic Partnerships Target Date: 30 June 2018
Oversight: Control Design – assurance reviews supporting the work and assurance opinion of the section151 officer					
3.	There is not a formal programme of independent assurance reviews to support the role of the Accountable Body, in particular to support the section 151 officer’s annual assurance statement, and the SELEP board. It is noted that this is part of the current CIPFA consultation on the role of Chief Finance Officers in Local Enterprise Partnerships.	Oversight arrangements may not be sufficient to support the ongoing Accountable Body and section 151 governance and assurance requirements. Failure to meet the responsibilities of	The role, remit, and operation of internal auditors in relation to SELEP activity, and who fulfils such a role, should be defined and implemented.	● Moderate	Agreed: Yes Action to be taken: As per the recommendation Additional Resources Required for Implementation: Yes – additional internal audit resource. Any associated costs are to be determined once the extent of the internal auditing is agreed Responsible Officer: Margaret Lee – Executive Director for

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Responses and Agreed Actions
		<p>the Accountable Body could lead to criticism from central government and reputational damage to ECC.</p>			<p>Corporate and Customer Services</p> <p>Target Date:</p> <p>Determination of role, remit, operation, and provider of internal audit services: 30 June 2018</p> <p>Completion and reporting of a risk-based programme of internal audit assurance reviews to provide assurance to the SELEP board and support the section 151 officer's annual assurance statement: 28 February 2019</p>

4. Controls Assessment Schedule

Risks:

Leadership and decision making

The LEP's assurance framework does not facilitate effective leadership and decision making e.g. through appropriate Boards which may lead to objectives and or outcomes not being met, potentially resulting in external scrutiny and or reputational damage to partners and or ECC as the Accountable Body

Control	Effective control In place and operating?	Action Plan Ref.
<p>All reports placed before the Strategic and Accountability Board include comment from ECC's legal and financial services staff on behalf of the Accountable Body to ensure implications of the decision being sought are considered prior to publication.</p> <p>Reports for decision decisions include a value for money statement as per the requirements of the Assurance Framework</p>	Yes	
<p>ECC's section 151 officer themselves (or that role as formally delegated i.e. through ECC's Financial Regulations) has clear line of sight of, and opportunity to consider and input into, the comments made by ECC's finance and legal staff to ensure decisions taken ensure ECC meets its obligations as Accountable Body</p>	Yes	
<p>Reports to the Accountability Board for decision include a standard section on whether the Business Case presented for funding meets the requirements of the Assurance Framework (i.e. fit with strategic objectives, clear defined outcomes, deliverability and risk, and cost benefit)</p>	Yes	
<p>The business case includes a standard section on whether the decision accords with the requirements of the grant awarding body and a commentary on whether there are any legal aid implications</p> <p>Business Case template contains an Appendix which sets out a S151 officer letter to be submitted alongside the Business Case to provide assurance that the information contained within the Business Case is true and accurate</p>	Yes	
<p>Records are maintained of SELEP's decisions and activities and ECC as the Accountable Body makes available all papers (agendas, decisions and minutes) relating to the Accountability Board promptly available on both ECC and SELEP websites</p>	<p style="text-align: center;">Partially</p> <p>Some issues identified by DCLG with the timeliness of papers on website</p>	<p style="text-align: center;">No recommendation made</p> <p>Additional capacity through a Governance Officer with the aim of ensuring transparency and good governance is being introduced as part of the current review of structures and staffing</p>

Control	Effective control In place and operating?	Action Plan Ref.
The Assurance Framework sets out when ECC as the Accountable Body cannot comply with a decision of the Accountability Board and the process to resolve such situations	Yes	

Transparency

The LEP's assurance framework does not set out the need for recording and publishing appropriate information and declarations which may lead to limited openness and transparency, potentially resulting in criticism from stakeholders and or non-compliance with the National Assurance Framework.

Control	Control In Place?	Action Plan Ref.
ECC staff have helped SELEP develop an Assurance Framework has been documented, refreshed recently, and published	Yes	
Records are maintained of SELEP's decisions and activities as ECC as the Accountable Body promptly makes available all papers (agendas, decisions and minutes) relating to the Accountability Board on its and the SELEP's website	Partially	
There is a forward plan published on the SELEP and ECC website listing issues for decision, the material that will support the decision to be made, who will take the decision, and the date of decision	Yes	
The forward plan is published online 28 days in advance of the relevant meeting at which the decision is to be taken	Partially The forward plan on the SELEP website (Dec 17) not as up to date as CMIS (Feb 18) therefore key decisions taken before SELEP website refers to them	No recommendation made Additional capacity through a Governance Officer with the aim of ensuring transparency and good governance is being introduced as part of the current review of structures and staffing
Standing declarations of interest are completed by board members	Yes	
Meeting participants are required to declare interests at the beginning of each meeting. Declarations made, and the actions taken as a results are recorded in the minutes	Yes	
Declarations of interest are published for public viewing on the SELEP website	Yes	

Control	Control In Place?	Action Plan Ref.
Information requests are logged and tracked to ensure that responses are given within 20 working days of receipt	Yes	

Accountability

ECC in its capacity as Accountable Body does not provide an effective **financial framework**, it may lead to the LEP not being open and accountable, potentially resulting in adverse external audit opinion and or non-compliance with the National Assurance Framework

Control	Control In Place?	Action Plan Ref.
ECC as Accountable Body has a documented and agreed scheme of delegation for approving SELEP-related decisions and transactions	Decisions on behalf of Accountable Body: Yes Transactions: Yes	
Transactions from SELEP cost centres must be approved through TCS by relevant approvers (i.e. s151 officer, SELEP Managing Director) to confirm that the proposed spend relates to SELEP business, and is appropriate	Yes	
Regular budget monitoring information is provided to the SELEP MD for their review to confirm whether the financial position is correct	Yes	
Journal transfers moving grant awarded by SELEP to ECC as a delivery partner are separately approved and include sufficient supporting evidence for the approver to be assured the transfer is valid and amount correct	No	1
SELEP's income and expenditure and assets and liabilities are recorded in TCS as 'external fund' and therefore not included in ECC's financial statements or regular financial	Yes	
Interest earned from SELEP cash on hand invested in ECC Treasury Management activity is calculated and paid over at the end of the financial year (and thereby ECC does not benefit from interest earned from SELEP cash)	Yes	
Service Level or Grant Agreements between ECC as the Accountable Body and all partners are in place	Yes	
There is an annual review and refresh as necessary of SLAs	Yes	
SLAs require the partner to accept the grant funding on the condition of	Yes	

Control	Control In Place?	Action Plan Ref.
agreeing to the requirements and expectations of government and take reasonable steps to enable ECC as Accountable Body meets its obligations		
Requests to transfer funds to partners are appropriately authorised by the ECC section 151 officer or as delegated and supported by partner section 151 officer sign off of the request	Yes	
ECC has arranged for appropriate external audit of funding equivalent to those in place for local authority spend and the results of which are published on the SELEP website in a timely manner	No The 2016/17 statement of accounts and audit results are not yet published on the SELEP website	2
ECC as Accountable Body regularly accounts for all spend allocated to the SELEP in specific reports to the Accountability Board	Yes	

Oversight

ECC in its capacity as Accountable Body does not have robust oversight arrangements in place which may lead to less effective business case development, project options, project management and value for money, potentially resulting in the LEP not meeting its aims and objectives and or meeting associated funding conditions

Control	Control In Place?	Action Plan Ref.
The SELEP Managing Director is line managed by the ECC section 151 officer with regular direct contact to provide the section 151 clear oversight of SELEP issues	Yes	
The ECC section 151 officer holds monthly meetings with all relevant ECC staff that discharge the Accountable Body's roles on a day to day basis	Yes	
ECC as the Accountable Body has assessed whether the Assurance Framework as written complies with the national minimum requirements of the National Assurance Framework and other government stipulations (i.e. Mary Ney recommendations) A prioritised list of remedial / improvement actions required are reported through a regular Assurance Framework Implementation plan	Yes	
ECC as the Accountable Body, through the section 151 officer provide an annual assurance statement setting out their opinion whether SELEP is meeting its obligations under the Assurance Framework and whether there are any issues of concern on governance and transparency This assessment is reported as part of an Annual Governance Statement	Yes	

Control	Control In Place?	Action Plan Ref.
to the Strategic and Accountability Boards with a clear statement of level of compliance and remedial actions required in the form		
The section 151 annual assurance opinion is based on an ongoing programme of 'independent' assurance reviews e.g. conducted by internal auditors independent of SELEP	No	3
Service Level Agreements between ECC as the Accountable Body and all partners are in place	Yes	
Tranches of grant funds are only transferred by ECC on receipt of a Quarterly Expenditure Profile form the partner council which is signed off the by the partner council's s151 officer attesting to the adequacy of local governance and the agreed estimate of spend to date and forecast spend profile	Yes	