



Local Growth Fund

Final Audit Report



Our Mission

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

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Report Status

Draft Report Issued – 16th June 2017

Final Report Issued – 20th June 2017

Draft Report Distribution

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1 Executive Summary

1.1 Scope and Background of Audit

- 1.1.1 This audit focused on the Local Growth Fund available to Local Enterprise Partnerships (LEP). These bodies are responsible for spending grant funding on agreed 'Growth Deal' programmes to support and expand the local area and economy.
- 1.1.2 Staffordshire County Council (SCC) is the accountable body for the Stoke & Staffordshire LEP (SSLEP), as such they receive the grant monies and are responsible for ensuring that the funding is spent and reported appropriately.
- 1.1.3 The grant offer letter for the 2016-2017 funding states a number of compliance requirements, and the Local Growth Fund as a whole has additional requirements which the LEP have made us aware of.
- 1.1.4 We have reviewed the use of the funding in accordance with the grant conditions, and the appropriate recording and reporting of the grants used in the financial year 2016-2017.

1.2 Summary of Audit Findings

| Control Objectives Examined | No of Controls Evaluated | No of Adequate Controls | No of Partial Controls | No of Weak Controls |
|---|--------------------------|-------------------------|------------------------|---------------------|
| Grant expenditure return reconciles to the County Councils financial accounting records held on SAP | 1 | 1 | 0 | 0 |
| Income received from grant funding is appropriately recorded in SAP | 1 | 1 | 0 | 0 |
| Expenditure incurred relates to schemes which are included on the approved programme of projects | 2 | 0 | 2 | 0 |
| Expenditure incurred is in accordance with the funding conditions | 1 | 1 | 0 | 0 |
| Expenditure incurred is supported by an appropriate level of documentation | 1 | 0 | 1 | 0 |
| VAT on expenditure is appropriately accounted for | 1 | 1 | 0 | 0 |
| Slippage-funded projects are subject to proper contract and governance procedures | 1 | 0 | 1 | 0 |
| TOTALS | 8 | 4 | 4 | 0 |

1.2.1 The following issues were considered to be the key control weaknesses:

| Rec Number | Risk Rating | Summary of Weakness | Agreed Action Date |
|------------|--------------|---|--------------------|
| 1 | Low Priority | Insufficient evidence is available to identify that allocation of expenditure to grant-funded schemes is appropriate. | N/A |
| 2 | Low Priority | Evidence presented as part of the external party grant funding claim is not sufficient to substantiate expenditure claimed. | N/A |
| 3 | Low Priority | Some transactions lacked sufficient documentation to ensure that they related to 2016/17 grant funded schemes. | N/A |
| 4 | Low Priority | One slippage-funded scheme used greater funding than the maximum contracted amount. No addendum or other contract variation was in place at the time of audit to support this greater funding amount. | 31st July 2017 |

This report focuses on the weaknesses in the Organisation’s systems of control that were highlighted by this audit and recommends what Audit considers to be appropriate control improvements. This report contains the follow amount of recommendations

| High | Medium | Low | Total |
|------|--------|-----|-------|
| 0 | 0 | 4 | 4 |

1.3 Summary of Control Assurance Provided

1.3.1 **Substantial** - We are able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls were in place and operating effectively and risks against the achievement of objectives were well managed.

2 Positive Assurance

We attempted to establish whether the organisation's system of control for the following areas contained all the key controls expected of a sound and robust process. Through a combination of control evaluation and testing we confirmed that the following adequate controls were in operation:

2.1 Grant expenditure reconciliation

- A reconciliation is performed by the Senior Finance Business Partner (John Broad), to summarise figures in SAP for submission to LOGASnet (the DCLG information return service).
- We have reviewed the reconciliation document and agreed a sample (5 schemes) back to SAP records. The SAP records have been agreed back to WBS listings where schemes are run by SCC, or expenditure claims submitted by external bodies. No issues were identified.
- We have obtained the four quarterly LOGASnet submissions and agreed the figures for the sampled schemes back to the reconciliation document. No issues were identified.

2.2 Grant income

- We have reviewed the amount received from the DCLG per the grant letter dated 4th March 2016 and confirmed it was correctly recorded in SAP.

2.3 Grant compliance

- LGF grant funding conditions are as follows:
 - Funds are to be used to support the Growth Deals agreed,
 - Funding is to be used solely when agreed between the LEP and the accountable body (SCC),
 - Progress against core metrics and outcomes are to be tracked as per the SSLEP assurance framework.
- We have tested 25 transactions recorded on LGF scheme WBS codes for appropriate compliance with the LGF grant funding conditions above.
- We found that all transactions were compliant with grant funding requirements – they were all used to support Growth Deal schemes, or slippage-funded schemes which have been agreed between the LEP and SCC.
- We have also considered the funding requirements of compliance with the SSLEP assurance framework, and tracking progress against core metrics.

Review of the constitution, assurance framework, and offer letter identified no core metrics stated for reporting.

Through further discussion with the Senior Finance Business Partner (John Broad) it was noted that there is a requirement for LGF schemes to increase local jobs alongside construction of local housing units. We have obtained a metrics dashboard produced monthly and presented to the SSLEP Executive Group in early 2017.

- No issues were noted with the monitoring of metrics & outcomes.

2.4 VAT

- We tested 25 transactions posted to LGF scheme WBS codes, or directly to the LGF cost centre.
- We found no issues with VAT treatment on transactions within SAP for those where VAT information was disclosed.
- We also tested 5 claims made for funding reimbursement.
- Of these, 3/5 were internal to SCC, and as such were not used for payment or VAT recording, as SAP was already used for the purchase-to-payment process for individual invoices.
- These internal claim forms are made for record-keeping and reporting purposes only.
- Of the 2 external claims, we found that 1/2 claims included VAT in the reimbursement values.
- Of the 5 invoices tested on the claim, all 5 had VAT included as part of the claim schedule.
- This was due to the claimant being a HE College; as such they are not VAT registered as education provision is VAT exempt. The College thus included their irrecoverable VAT in the grant funding claim. This was further confirmed through follow up with the VAT Manager (Andrew Powell) as the appropriate treatment.

3 Control Weaknesses & Recommendations

3.1 Grant expenditure on programmes

3.1.1 **Objective:** Expenditure is only recorded on grant codes when it relates to approved projects on the LGF programme

We have tested 25 transactions recorded on Local Growth Fund scheme WBS codes for being related to appropriate Growth Deal programmes, or approved slippage-funded schemes.

We found that 23 out of 25 expenditure items tested related to ongoing LGF schemes or approved slippage-funded schemes.

2 out of 25 transactions were less clear: the first, for fire safety equipment, had an invoice that did not state the project or site that it related to. The second was an internal recharge for Land Registry fees, with limited details on the project or sites that the costs related to. The values involved in these two items were under £2,000 and £1,000 respectively.

There is a risk that expenditure for unrelated items is being allocated to grant-funded projects.

| Recommendation 1 | | Summary Response | |
|--|--------------|---|------------|
| Risk Rating: | Low Priority | Responsible Officer: | John Broad |
| Summary of Weakness: Insufficient evidence is available to identify that allocation of expenditure to grant-funded schemes is appropriate. | | Agreed Actions: None – risk agreed, but action is not. The issues found were of very low value. Large items with insufficient evidence would be queried on a case-by-case basis (did not come up in testing). | |
| Suggested Action: Query or reject requests for grant-funding allocation if evidence to support the expenditure is insufficient, a formal threshold value could be established which would trigger action | | Implementation Date: N/A | |

3.1.2 **Objective:** Expenditure claims are submitted quarterly, and reviewed and approved by staff in SCC

We tested 5 claims made for LGF monies, including external party schemes, SCC schemes, and slippage funding schemes.

The claims were found to be signed by a senior representative of the body claiming in 5 out of 5 cases.

For 2 out of 3 SCC claims, the representative signing the claim was appropriately senior, but did not match the name printed on the form.

For those which required external payment, 2 out of 2 claims were reviewed and approved by a Finance Business Partner and Senior Finance Business Partner respectively.

For the 2 external party claims, 5 invoices behind each claim were tested and it was found that:

- Staffordshire College AMD project invoices did not state any project details in 1 out of 5 cases (stated only Staffordshire College).
- SoT CC South-West Approach scheme evidence provided was internally generated in 3 out of 5 cases.
- SoT CC South-West Approach scheme evidence did not provide sufficient evidence of the value claimed in 1 out of 5 cases.

There is a risk that expenditure reclaimed by external parties from the Growth Deal funding is:

- Inappropriate, as invoices presented may not relate to the Growth Deal scheme.
- Inappropriate, as evidence presented is internally generated.
- Inappropriate, as evidence presented lacks sufficient evidence for the amount claimed.

| Recommendation 2 | | Summary Response | |
|---|--------------|--|------------|
| Risk Rating: | Low Priority | Responsible Officer: | John Broad |
| Summary of Weakness: Evidence presented as part of the external party grant funding claim is potentially not sufficient. | | Agreed Actions: None – risk not accepted as the LEP cannot overpay. All schemes receive LGF funding alongside private sector funding. Underspend does not give a saving to the LEP as the funding is there to be spent. Action not accepted as per 3.1 above. | |
| Suggested Action: Improve policy and process for evidence submitted alongside grant funding claims for example, external parties to ensure scheme/project details are included on invoices / supporting documentation and those based on internal information what has been used to generate value being claimed. | | Implementation Date: N/A | |

3.2 Expenditure documentation

3.2.1 **Objective:** Expenditure recorded against grant funding codes should be supported by appropriate documentation

We tested 25 transactions across 5 schemes which received Growth Deal funding in 2016/17.

The tested items included both SCC scheme transactions recorded on WBS codes, and claims for expenditure for external body schemes recorded on the LGF cost centre DP5710.

Of these:

- 2 out of 25 transactions had only internally generated evidence – these were SCC payment certificates to the contractor, with no invoices provided. This is due to the partnership in place with Amey LG. The payment certificates were however approved by 2 senior project staff at SCC – a Senior Engineer and a Project Manager.
- 1 out of 25 items charged included allocated staff costs from the 2015/16 financial year. The value was trivial, at £137 recorded from March 2016.
- 2 out of 25 transactions lacked sufficient information within the evidence provided – 1/2 invoices did not state the project or location involved (as recorded in section 3.1), and the other lacked sufficient description of the nature, reason, project or site relating to the expense (as recorded in section 3.1).

There is a risk that expenditure is allocated against grant funding without sufficient evidence to show that this is appropriate.

| Recommendation 3 | | Summary Response | |
|--|--------------|--|------------|
| Risk Rating: | Low Priority | Responsible Officer: | John Broad |
| Summary of Weakness: Some transactions lacked sufficient documentation to ensure that they related to 2016/17 grant funded schemes. | | Agreed Actions: None. Risk is accepted for smaller items, and larger items with insufficient details are already queried (did not come up in testing). Action is not accepted as per 3.1. | |
| Suggested Action: Query or refuse expenditure documentation that contains insufficient details to back up grant funding claims, a formal threshold value could be established which would trigger action | | Implementation Date: N/A | |

3.3 Slippage-funded projects

3.3.1 **Objective:** Repayment contracts are in place and approved for all slippage funded capital programmes to ensure repayments are made to the LGF.

It was noted in 2015/16 that grant funding available due to Growth Deal scheme slippage was being used for non-grant-related SCC capital schemes. There were no contracts or other formal agreements in place to cover the borrowing and repayment of the grant funding used.

For 2016/17, repayment contracts have been introduced for the slippage-funded schemes.

Of the 8 slippage-funded schemes, we have reviewed 2. We tested the approval by the LEP and the contracts in place.

Both contracts were signed by appropriate parties.

Both schemes using slippage funding were approved by the Executive Group at the LEP.

For 1 out of 2 schemes reviewed, the expenditure in year was greater than the maximum amount for the year per the contract, at £903k spent against £800k agreed in the contract.

There is a risk that the Council could breach grant conditions by providing greater slippage funding to non-Growth Deal schemes than contracted & approved.

| Recommendation 4 | | Summary Response | |
|--|--------------|--|----------------------------------|
| Risk Rating: | Low Priority | Responsible Officer: | Simon Ablewhite & David Nicholls |
| Summary of Weakness: One slippage-funded scheme used greater funding than the maximum contracted amount. No addendum or other contract variation was in place at the time of audit to support this greater funding amount. | | Agreed Actions: SCC are to prepare addendums to the slippage-funding contracts to ensure that the final outturn for repayment is recorded. | |
| Suggested Action: Ensure addendums to contracts are in place to update the funding amounts, and that these are signed and kept on record. | | Implementation Date: 31 st July 2017 | |

Disclaimer

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. SCC neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

