

**BUCKINGHAMSHIRE COUNTY COUNCIL
INTERNAL AUDIT AND RISK MANAGEMENT**

**BUCKINGHAMSHIRE & THAMES VALLEY LOCAL ENTERPRISE PARTNERSHIP
GOVERNANCE - INTERNAL AUDIT REPORT
2016/17**

Date Issued: November 2017

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CONTENTS

Section	Page
Management Summary	3
Overall Conclusions (Table 1)	5
Audit Findings and Action Plan (Table 2)	13
Low Priority Issues (Table 3)	16
Definition of Conclusions (Appendix 1)	17
Officers Interviewed (Appendix 2)	18

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Auditors:

Maggie Gibb
Miyako Graham
Michael Dickinson

Chief Internal Auditor
Audit Manager
Internal Audit Senior

Report Distribution:

Neil Gibson
Richard Harrington
Richard Ambrose
Gill Harding

Managing Director, TEE
BTVLEP CEO
Director of Finance and Assets
Director, TEE

Final Draft (Limited assurance reports)

One Council Board

Final Report as above plus:

Gillian Quinton
Sarah Ashmead
Grant Thornton

Managing Director
Assistant Chief Executive
External Audit

Management Summary

Introduction

This audit of BTVLEP Governance was undertaken as part of the 2016/17 Internal Audit plan, agreed by the Managing Director of Transport, Economy & Environment (TEE), HQ Assurance and approved by the Regulatory and Audit Committee. It should be noted that this audit focused on the controls relating to the BTVLEP Governance processes.

Audit Objective

Internal Audit's objectives for this audit are to provide an evaluation of, and an opinion on, the adequacy and effectiveness of the system of internal controls that are in place to manage and mitigate financial and non-financial risks of the system. This will serve as a contribution towards the overall opinion on the system of internal control that the Chief Internal Auditor is required to provide annually to the Council, and also as an assurance to the Section 151 officer that financial affairs are being properly administered.

Scope of work

The audit activity focussed on the following key risk areas and how assurances relating to the LEP programmes are being recorded and reported by the involved parties. It has also tried to establish the relationships between the various Boards and to clarify the decision making processes. The areas examined were:

Stage 1: Decision Making Processes, undertaken as an information gathering exercise involving interviews with a number of officers to:

- Establish the boards, groups, meetings that take place across the organisation where decisions are taken;
- Document the purpose of each of the boards etc. identified above;
- Establish if there is a terms of references in place that define roles and responsibilities of the board;
- Confirm who attends the board meetings and why is their representation required;
- Establish what type of business is reported and discussed by the board;
- Clarify the decision making powers of the board; and
- Establish the escalation process for key risks and decisions.

Stage 2: Following a preliminary review of the decision making process, audit sought to establish how programmes/projects were managed within the governance framework. The review attempted to address the following questions:

- How the decision to start a programme/project is reached?
- What is the process undertaken before the money is released on transport schemes?
- What is the function of the various boards with regard to programmes/projects?
- What types of programmes/projects are reported to the various boards?
- What decisions can the boards make with regard to programmes/projects?
- What reporting mechanisms are in place for monitoring programmes/projects?

A small sample of programmes/schemes was selected to establish the effectiveness of the governance framework.

The audit considered the controls in place at the time of the audit only. Where appropriate testing was undertaken, it used a sample of transactions that occurred within the last 12 months.

Table 1 Overall Conclusion

Overall conclusion on the system of internal control being maintained	Reasonable
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RISK AREAS	AREA CONCLUSION	No of High Priority Management Actions	No of Medium Priority Management Actions
Decision Making Processes	Reasonable	1	0
Scheme Management	Reasonable	0	2
		1	2

Appendix 1 provides a definition of the grading for each of the conclusions given.

The audit reviewed the purpose, type of business discussed and decision making powers of each LEP Board / sub-Board; and the scheme management processes including scheme appraisal and on-going management undertaken in accordance with the LEP Assurance and Accountability Framework.

The BTVLEP Governance audit has an overall opinion of reasonable assurance. There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls. The main issues identified are summarised in Table 2. The following section summarises the findings of the review.

Decision Making Processes

Assurance and Accountability Framework

An Assurance and Accountability Framework (AAF) is in place which states the outline process for scheme appraisal. This includes a three staged process of initial scheme appraisal, scheme development and final prioritisation. It was identified the level of scrutiny and requests from Central Government varies on a scheme-by-scheme basis and therefore the iterations of each stage can vary. This was factored into the auditing process. The Assurance and Accountability Framework is available on the BTVLEP website and therefore is available to all relevant stakeholders.

The AAF is a very lengthy and complex document due to the requirements set out in the Department for Transport (DfT) guidance for Local Transport Bodies on Assurance and Governance.

Board / Sub-Boards Roles and Responsibilities

The LEP Board and the three sub-Boards in place (Bucks Advantage Board, Bucks Business First, and Bucks Skills Programme Board) each have a Terms of Reference included within the Assurance and Accountability Framework. This defines the purpose, roles and responsibilities and decision making powers for each.

The audit identified some confusion and frustrations with the decision making process due to the complexities of the various boards and requirements stated in the Department for Transport (DfT) guidance for Local Transport Bodies on Assurance and Governance.

A key role of the Boards should be the effective management of risks relating to the LEP schemes. Whilst risks are identified within the business cases, there is no clear visibility of the risk profile across the projects to enable the Boards to gain a good understanding of the potential impacts.

Board / Sub-Board Types of Business

Examination of the last three sets of meeting minutes for each of the four Boards / Sub-Boards identified a different type of business being discussed at each. Common topics included:

- BTVLEP Board: LEP Governance, the Strategic Economic Plan (SEP), Local Growth Funding Allocations and updates from each Sub-Board.
- Bucks Advantage (BA) Board: Updates on schemes in progress, scheme recommendations to the LEP Board and the Bucks Infrastructure Investment Plan.
- Bucks Business First Growth Hub Steering Group: Advice for Businesses on EU Funding in light of Brexit and updates on schemes in progress.
- Bucks Skills and Employability Board: Review of the Skills Strategy, updates on projects in progress such as the Bucks Skills Show and Apprenticeship and Work Experience Opportunities.

Board Attendees

A range of stakeholders attended each Board / Sub-Board meeting including:

- BTVLEP Board: Local Councillors, LEP Senior Management, BCC TEE Directors, education providers and private business representatives from BBF.
- Bucks Advantage (BA) Board: Bucks Advantage staff, private business representatives, LEP staff, BCC staff and District Council(s) staff.
- Bucks Business First Growth Hub Steering Group: BBF staff, education providers, LEP staff and District Council(s) staff.
- Bucks Skills and Employability Board: LEP staff, private business representatives, education providers and BCC staff.

Where members, as stated in the Assurance and Accountability Framework, were not able to attend; an alternate was provided in all instances.

There are some instances where representatives sit on a number of Boards, for example the Development Manager at the LEP was a member of all Boards which resulted in potential conflicts of interest and duplication of effort.

Scheme Management

In order to evaluate the scheme appraisal and management processes, two schemes were selected – Eastern Link Road / Stocklake Urban Link (ELR/SLR) from SEP 1 and the National Film and Television School Digital Content Hub (NFTS) from SEP 2. As an introduction, the NFTS scheme came to fruition as the Amersham and Wycombe College scheme was unable to deliver the original objectives of their Growth Deal Offer. The Skills and Funding Agency decided to reduce their original allocation of £5mn to £2.69mn. This resulted in a Skills and Business Incubation 'open call ' for £2.31mn being put out to the market, and NFTS was a scheme approved to use these excess funds.

Prioritisation of Schemes

In order for schemes to be considered for funding, a prioritisation process is undertaken by a range of stakeholders. For schemes which were part of SEP's 2 and 3, the Assurance and Accountability Framework states that the prioritisation should be reviewed by an appraiser independent of the scheme promoters.

ELR/SLR: This scheme was part of SEP 1 and therefore was not reviewed by an independent appraiser as this was not a requirement at the time. Transport projects such as these are the responsibility of the local transport authority (BCC) and therefore the LEP asked BCC for its priority schemes. Examination of the tabled schemes from BCC confirmed the ELR and SLR schemes were numbers one and two – and thus the highest priorities. Therefore, it appears the project was appropriately selected due to its prioritisation.

NFTS: As stated above, the scheme was awarded following an open-call for available funds. Examination of a report prepared by Hewdon Consulting identified that the seven bids received from the open call were analysed by an independent appraiser. The report included a formal evaluation criteria with a numerical score out of 25. The NFTS project was scored 24 and classed as the best project by Hewdons. Comments supporting the conclusions were provided.

This report was presented to the LEP Board on 20 May 2016 and the Board supported Hewdon's recommendation. Therefore, there appears to have been a prioritisation process undertaken for the 'open call' bids, which were also reviewed by an appraiser independent of the scheme promoters.

LGF3: In order to test the prioritisation of schemes as part of a new funding round (and not part of an open call), audit examined the prioritisation process for Local Growth Funding 3 (LGF3). Hewdon Consulting produced a similar report to the above analysing the 26 proposed schemes. This information was presented to the LEP Board on 22 July 2016 which supported the recommendations. Therefore, the LGF3 prioritisation process appears to have been reviewed by a range of stakeholders, including an independent appraiser.

Schemes and the SEP

Examination of the two schemes selected confirmed they were consistent with the SEP objectives at the time of their appraisal. The SEP(s) were also confirmed as being governed and regularly reviewed by the BTVLEP Board in addition to a periodic review by Central Government.

Business Case Production

A 'Strategic Business Case' is produced by the promoter which states high level costs. This is submitted to Government for further scrutiny. In high cost projects, a further business case is requested with a detailed procurement plan. Appraisal of both business cases is undertaken by a variety of people based on the size and focus of the business case.

ELR/SLR: This scheme began as two separate projects and therefore two strategic business cases were produced. The documents stated the economic, financial, commercial and management cases for each project. When the projects were combined, a further business case was produced. Examination of the BTVLEP Board meeting minutes from 17 July 2015, item 4.1, confirmed the business case was presented and a conditional offer made of £2.2mn, based on the independent recommendation from Hewdons being implemented.

NFTS: As this scheme was in response to an open call, an application form was completed as opposed to a business case. The application included aims and objectives, how the aims were aligned with the LEP's strategic objectives, total costs of the scheme, forecasted income, an NPV calculation and key project milestones. The application was reviewed by the BTVLEP Board on 20 May 2016 and therefore appeared to be an appropriate process in place.

Independent Technical Advice

Clause 7.4.3 of the Assurance Framework states, 'it is highly likely that the scheme promoter for some future schemes will be members of the BTVLEP Board - and therefore it is critical to ensure that BTVLEP receives independent advice as to the technical merits of the business case so informed decisions can be made'.

ELR/SLR: This scheme had been promoted by Buckinghamshire County Council (BCC) and therefore advice independent from BCC was required. Examination of a report undertaken by Hewdon Consulting, dated 9 July 2015, confirmed independent advice had been received with a number of required actions highlighted. Therefore, this confirmed independent advice was taken.

NFTS: As stated within the 'Prioritisation of Schemes' section, an independent review of the information had been undertaken by Hewdons. Therefore, technical address appears to have been sought from an independent appraiser.

Value for Money Statement

Page 23 of the Assurance Framework states the value for money statement will be signed off by the BTVLEP CEO.

ELR/SLR: Examination of the Value for Money Statement for the ELR/SLR scheme, dated November 2015, identified it was in place and signed by the BTVLEP CEO. The statement lists the points raised by the independent appraiser (Hewdons) and concluded that, 'the BTVLEP Project Management Team maintained a log of these actions, ensuring they were complete'. In light of this, the CEO was satisfied the scheme offered value for money and signed the statement.

NFTS: Discussion with the Partnership Manager identified that schemes which have been put out to open-call include a value for money statement within the application. Examination of the application confirmed a section entitled, 'Project Cost', however this was not signed by the LEP CEO. A recommendation has been raised in Table 2.

Final Approval

Clause 7.4.2 of the Assurance Framework states, 'Once funding has been allocated by central government, the BTVLEP Board will be responsible for assessing the business case and determining whether or not to provide funding for a particular scheme'. All due diligence will be presented for the Board to make a decision.

ELR/SLR: Examination of meeting minutes of the BTVLEP Board from 20 November 2015 identified item 6 entitled, 'Local Growth Fund Update'. A presentation was presented by the Development Manager which outlined the due diligence process undertaken on a range of schemes, with slide four being specific to the ELR/SLR scheme. The due diligence report completed by Hewdons was also presented as an appendix to item 6. The meeting minutes confirmed authority was delegated to the LEP CEO/Section 151 Officer to sign the offer letter for full approval.

NFTS: Examination of the BTVLEP Board meeting minutes for 22 July 2016 identified item 6.4, which states, 'The Board noted the information in the Chief Executive's report re Skills Capital and Incubation Funding and approved the progression to formal contract with the NFTS for £1.5m of LGF funding to support the equipping of a state of the art digital production studio facility'. Examination of the CEO report mentioned above identified that the conditions identified by the Hewdons report had been met by NFTS and therefore recommended for the scheme to be approved. Therefore, the Board approved the final business case.

Release of Funds

Once a scheme has been approved by the LEP Board, BCC receive the funds from Central Government as they are the accountable body. Funds are released to the promoter retrospectively (i.e. after works have been completed).

In order for funds to be released, a template claim form and certificate of works are completed and received at quarterly finance meetings. The claim forms are signed off by the LEP CEO and a representative from the claimant and processed by the BCC Accountant.

Examination of five scheme claims confirmed the following in all instances:

- The scheme had been approved by the LEP Board.
- A claim form had been completed, retained on file and signed by the LEP CEO and representative from the claimant.
- A certificate of works retained on file with the correct amount.
- The correct amount was paid, with the payment being made after the business case had been approved.

It was identified however that the process discussed above is not formally documented and available to all involved stakeholders. A recommendation has been raised in Table 3.

Performance Monitoring of Projects

The BTVLEP Board have a number of Sub-Boards each responsible for overseeing different types of schemes:

- Bucks Advantage (BA) oversees the management and coordination of BTVLEP's capital investment programme.
- Bucks Business First (BBF) oversees the management and coordination of BTVLEP's business support programme.
- Bucks Skills Programme Board (BSPB) oversees the management and coordination of BTVLEP's skills programme.

ELR/SLR: This project is classed as a capital investment programme. Examination of a range of BA Board meeting minutes between January 2014 and November 2015 confirmed regular progress updates on the ELR/SLR scheme.

NFTS: The business case for this project was approved at BTVLEP Board on July 2016 and the claim form authorised in September 2016. Examination of meeting minutes for various Boards did not identify any formal oversight or monitoring of the project. The only reference was on the Growth Hub meeting on 22 September 2016 which states the sign-off had been given from BTVLEP Board.

Discussion with the Partnership Manager identified the project had progressed relatively quickly and therefore monitoring to date has not taken place. Progress would normally be monitored at the BA Board however the next planned meeting of the LEP Board was Friday 27 January, and therefore the project was due to be discussed within the CEO Report. Examination of the agenda pack confirmed this as an item. Therefore, the arrangements in place appeared to be appropriate given the swift progress of the project.

Table 2 Detailed Audit Findings and Action Plan

Management actions have been agreed to address control weakness identified during the exit meeting and agreement of the draft Internal Audit report. All high and medium management actions will be entered on the Council’s Performance Management Software and progress in implementing these actions will be tracked and reported to the Regulatory & Audit Committee.

We categorise our management actions according to their level of priority:

Priority High (H)	Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management.
Priority Medium (M)	Significant issue that requires prompt action and improvement by the local manager.
Priority Low (L)	Minor issues requiring action to improve performance or overall system of control.

	Audit finding, risk exposure and potential impact	Priority	Management Action
Decision Making Processes			
1.	<p><u>Governance and Risk Management</u></p> <p>To ensure good governance and robust risk management, responsibilities and accountabilities need to be clear.</p> <p>During the audit, we reviewed the BTVLEP Assurance and Accountability Framework. This document is compliant with the requirements of the Department for Transport (DfT) guidance for Local Transport Bodies on Assurance and Governance, but as a consequence the document is lengthy, complex and not user-friendly.</p> <p>Risks are identified within business cases/appraisals, however there is no overall risk profile for the projects to enable the Boards to have a holistic view of the risks faced, potential impacts and the mitigating actions.</p> <p>During the audit, a number of officers raised frustrations over the decision making process, the various bottle necks/duplications of reporting. It is difficult to recommend a radical solution to this due to the DfT assurance requirements, however the creation of a Project Management Office is being considered within the Business Unit and Audit believes that this should streamline some processes.</p> <p>The PMO could also implement a more robust risk management process through</p>	H	<p>Production of documentation to confirm accountability and expectations.</p> <p>Officer responsible: <i>John Rippon Head of Growth and Strategy Development</i></p> <p>Date to be implemented by: <i>31/12/17</i></p>

Audit finding, risk exposure and potential impact	Priority	Management Action
<p>use of the new Corporate Risk Management System (Covalent) to increase visibility of the risk landscape for the BTVLEP projects.</p> <p>The use of a RACI model could be of benefit to clarify accountabilities and expectations for reporting in the decision making process.</p> <p>Where the governance arrangements are not clearly defined, there is a risk of decisions being taken without the appropriate information. This may lead to a lack of scrutiny and thus inappropriate schemes being approved, or a duplication of effort creating further pressure on resources.</p>		
Scheme Management		
<p>2. <u>Process for Open-Calls</u></p> <p>To ensure transparent and consistent processes are undertaken, all appraisal policies and procedures should be formally documented.</p> <p>During the audit, the National Film and Television School Digital Content Hub scheme was selected for review following an open-call process. Audit noted the following anomalies of the open call process compared to the standard scheme appraisal process:</p> <ul style="list-style-type: none"> • A formal and documented process is not in place for the administration of open-calls. A walkthrough of the process for the NFTS scheme confirmed the process as completing a standard application form, an independent prioritisation of bids and production of business cases, where necessary. However this procedure was not documented in the Assurance and Accountability Framework. • A Value for Money Statement had not been completed and signed off by the LEP CEO. Discussion with the Partnership Manager identified that this has been identified as a weakness and there is now an expectation for this to take place for all schemes. This was acknowledged by audit however the requirement should be written into standard procedure to clarify the process for all stakeholders. <p>Where the process for open calls is not formally documented, there is a risk of the process being undertaken in an incorrect manner. This may lead to a lack of scrutiny and thus inappropriate schemes being approved.</p>	<p>M</p>	<p>The process for open calls, including the completion of a value for money statement, should be formally documented within the Assurance and Accountability Framework.</p> <p>Officer responsible:</p> <p><i>John Rippon Head of Growth and Strategy Development</i></p> <p>Date to be implemented by:</p> <p><i>31/12/2017</i></p>

Audit finding, risk exposure and potential impact	Priority	Management Action
<p>3. <u>Documented Release of Funds Procedure</u></p> <p>Policies and procedures should be in place to ensure responsibilities are understood.</p> <p>Discussion with the Senior Management Accountant at BCC identified the process which must be undertaken when funds are being released to approved projects. The project was described as follows:</p> <ol style="list-style-type: none"> 1. A template claim form and certificate of works are completed and presented at quarterly finance meetings. 2. The claim forms are signed off by the LEP CEO and a representative from the claimant. 3. The payments are processed by the BCC Accountant. <p>It was identified however that this process is not formally documented and available to all involved stakeholders in the Assurance and Accountability Framework. The Assurance and Accountability Framework did make the following references to the role of the Accountable Body but do not specifically outline a process:</p> <ul style="list-style-type: none"> • BCC's Section 151 Officer will continue to be responsible for ensuring that funds are used appropriately and for ensuring that there are adequate financial controls in place to ensure the effective and efficient safeguarding of public funds. • BCC's Section 151 Officer will ensure public money is used appropriately, economically, efficiently and effectively. • The use of LGF resources will be subject to the usual local authority checks and balances - including the financial duties and rules which require Councils to act prudently in spending. <p>Where a process is not formally documented, there is a risk of the process being undertaken incorrectly. This may lead to unauthorised funds being released.</p>	<p>M</p>	<p>A section should be included within the Assurance and Accountability Framework outlining the process for releasing funds approved projects. This should include as a minimum:</p> <ol style="list-style-type: none"> 1. A claim form and certificate of works are presented to the quarterly finance meetings. 2. The claim form should be signed off by the LEP CEO and a representative from the claimant. 3. The role of the Accountable Body (currently BCC). <p>Officer responsible:</p> <p><i>Mark Kemp – Director of Growth and Strategy</i></p> <p>Date to be implemented by:</p> <p><i>Date – 31/12/17</i></p>

Table 3 Low Priority Issues

Audit finding, risk exposure and potential impact	Priority	Management Action
None		

Appendix 1 Definition of Conclusions

Grading:	Substantial	Reasonable	Limited
Overall conclusion on the system of internal control being maintained	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.	There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.	The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.

Appendix 2 Officers Interviewed

The following staff contributed to the outcome of the audit:

- Richard Harrington, BTVLEP Chief Executive Officer
- Jim Sims, Business Development Manager
- Ian Barnham, Partnership Manager,
- Fiorella Mugari, Senior Management Accountant,
- Philippa Batting, Managing Director, BBF.

The auditors are grateful for the cooperation and assistance provided from all the management and staff who were involved in the audit. We would like to take this opportunity to thank them for their participation.

Disclaimer

Any matters arising as a result of the audit are only those, which have been identified during the course of the work undertaken and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that could be made.

It is emphasised that the responsibility for the maintenance of a sound system of management control rests with management and that the work performed by Internal Audit Services on the internal control system should not be relied upon to identify all system weaknesses that may exist. However, audit procedures are designed so that any material weaknesses in management control have a reasonable chance of discovery. Effective implementation of management actions is important for the maintenance of a reliable management control system.

Contact Persons

Maggie Gibb, Business Assurance Manager

Phone: 01296 387327

Email: mgibb@buckscc.gov.uk

Rachel Shovell

Phone: 01296 387016

Email: rshovell@buckscc.gov.uk

Miyako Graham

Phone: 07825450782

Email: miyako.graham@mazars.co.uk