

Internal Audit Report

**North East Local Enterprise Partnership
Payment of Loans and Grants (including repayment of loans)**

2016 - 17

Level of Assurance	Substantial
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Internal Audit Report

North East Local Enterprise Partnership (NELEP) Payment of Loans and Grants (including repayment of loans)

1. Introduction and Objectives

- 1.1 In delivery of Internal Audit's operational audit plan and at the request of the North East Combined Authority the fieldwork for the above audit was recently completed.
- 1.2 The objective of the audit was to provide assurance on the effectiveness of the arrangements the NELEP has put in place for the awarding of loans and/or grants to other organisations, specifically in terms of scheme governance, transparency, process and loan repayment.
- 1.3 The scope of the audit included a review of the following areas:
- Policies and procedures;
 - Roles and Responsibilities;
 - Governance arrangements (including the delegation of decision-making);
 - Process for awarding loans and grants through the North East Investment Fund and Local Growth Fund;
 - Monitoring and reporting;
 - Repayment of loans.
- 1.4 Through discussions with management, key risks to the achievement of the objectives of the area under review were identified. The key controls to manage those risks were then identified, assessed for adequacy and tested to confirm whether they are operating as planned.
- 1.5 Discussions were held with the following officers:
- Helen Golightly, Chief Operating Officer (NELEP);
 - Ray Browning, Programme Manager (NELEP);
 - Paul Dixon, Principal Accountant (Sunderland City Council);
 - Alison Copsey, Senior Funding & Commercial Officer (Sunderland City Council).

Sunderland City Council continue to provide management and administrative support to the NELEP on behalf of the North East Combined Authority, the designated Accountable Body for the NELEP.

- 1.6 Audit findings are categorised as High, Significant, Medium or Low Risk, in accordance with the definitions set out in Appendix A. Recommended actions to address any such findings are detailed in the Action Plan at Appendix B. Once agreed, effective implementation of such actions by management is important for the maintenance of a reliable internal control system.

- 1.7 Matters raised as a result of audits are not necessarily a comprehensive statement of all control issues that exist or all improvements that might be made. Responsibility for the maintenance of a sound system of internal control rests with management. Audit procedures are designed so that any material weaknesses in internal control have a reasonable chance of discovery, but should not be relied upon to identify all system weaknesses that may exist.

2 Summary of Findings

- 2.1 The audit did not reveal any matters which are considered to be high, significant or medium risk. Findings are favourable in all areas examined and have led to a positive overall conclusion for this audit.

Policies and Procedures

- 2.2 The Assurance Frameworks applicable to the North East Investment Fund and Local Growth Fund (which include the Terms of Reference for the Investment Panel and Technical Steering group), were undergoing review at the time of the audit. These frameworks are being reviewed and brought together into one document covering the NELEP and the North East Combined Authority, taking account of the latest Government assurance framework guidelines issued in November 2016.

- 2.3 A draft copy of the revised Assurance Framework was sighted and this is considered to be appropriately laid out and informative on the operation of key systems and procedures for the appraisal and funding of schemes. The document includes reference to the key roles of the Investment Panel and Technical Steering Group in this process, although it is felt that more detailed information on the constitution and governance arrangements for these bodies should be included to enhance transparency. This could be included either as part of the Assurance Framework document or the document could include a link to the appropriate external reference source, such as a dedicated page on the NELEP Website. Such further information should include information on the specific remit of each body, the frequency of their meetings, details of attendees and those numbers required to make a quorum etc.

Roles and Responsibilities

- 2.4 Discussions with officers responsible for providing management and administrative support to the NELEP confirmed they are clear on the detail and extent of their role and responsibilities.

Governance/Delegation Arrangements

- 2.5 These arrangements are considered appropriate and from an examination of evidence for a sample of current schemes, are being effectively applied.
- 2.6 NELEP Board members do declare their interests and a register of all such interests is maintained. At the time of the audit, declarations could not be sighted for two

recent appointments to the Board, [REDACTED] and [REDACTED], but it is understood that the assessment and subsequent publication of any applicable interests is in hand.

Awarding of Loans and Grants through the North East Investment Fund and Local Growth Fund

- 2.7 The systems and procedures agreed by the NELEP for the award of loan and grant funding are being appropriately applied.

Monitoring and Reporting

- 2.8 Monitoring and reporting arrangements are effectively applied to ensure that funding schemes are progressing as expected to achieve their agreed outcomes.

Repayment of Loans

- 2.9 It was stated that all current repayment plans are on course, with one exception. This relates to the [REDACTED] accommodation scheme which received a loan of [REDACTED] and against which the organisation concerned has been unable, so far, to make the required repayments. However, the Principal Accountant stated that representatives of the NELEP and Combined Authority have discussed with this organisation the difficulties it faces in meeting the agreed repayment plan and that an interim payment of accrued interest has recently been received. A Letter of Default has been issued and this situation is being closely monitored to ensure that the loan will be repaid.

3 Conclusion/Opinion Statement

- 3.1 The findings of the audit give substantial assurance on the effectiveness of the arrangements the NELEP has put in place for the awarding of loans and/or grants to other organisations.
- 3.2 The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. The only issue identified for attention is minor in nature and should not prevent objectives being achieved.

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Definition of Risk Categories for Audit Findings

Categorisation	Definition
High Risk	There is a fundamental control issue which if not addressed immediately will put at risk the achievement of the aims and objectives of the organisation.
Significant Risk	There is a control issue which could have a significant impact on the achievement of the aims and objectives of the organisation, or which presents a significant risk to the organisation's reputation. Prompt management action is required to remedy the situation.
Medium Risk	There is a control issue which could prevent the achievement of the aims and objectives of the area or service which is being audited, and management attention is required to remedy the situation within a reasonable period.
Low Risk	There is a minor control issue within the system and proportional remedial action is required within an appropriate timescale.