

# Audit, Risk and Insurance Service

## Final Internal Audit Report

### LEP Loans

**March 2019**

Level of Assurance	Full
Value for money / efficiency recommendations	None Identified

## 1. Introduction

This was an audit of LEP Loans, which forms part of Internal Audit's programme of work for 2017/18. The audit was undertaken in November/December 2018.

The role of Internal Audit is to assist members and officers in effectively discharging their responsibility and in so doing, deliver the objectives of the organisation and its associated bodies. It is the responsibility of management to maintain effective internal control systems.

Internal Audit conforms to Public Sector Internal Audit Standards (PSIAS) 2013.

## 2. Background and Objectives

The LEP provides loans to support projects that encourage local economic growth and creation of jobs. Loan agreements are put in place, with repayment plans set out, and projects are then monitored to ensure outputs are delivered and repayments are in line with the agreed schedule.

The overall objective of the audit was to assess whether significant risks in relation to LEP Loans are adequately and effectively controlled. This was done through review of the following objectives:

- Loans are supported by an appropriate agreement, setting out repayment terms and any other relevant conditions.
- Monitoring takes place to ensure organisations are meeting their obligations with regard to repayments and delivery of outputs.

## 3. Summary of Audit Work Undertaken

The audit approach and work undertaken was as follows:

Discussions with the Principal Accountant, Senior Funding & Commercial Officer, and Programme Manager to ascertain the nature of the system and identify the controls operated by management.

Review of a sample of projects to ensure all relevant documentation is in place, repayment terms and any other conditions are being met or where they are not to ensure issues are being addressed effectively, and monitoring is being undertaken effectively to ensure outputs are being delivered.

### Projects reviewed:

Cobalt Data Centres  
The Jesmond  
Shepherds Offshore  
Blyth Workspace  
Sleekburn  
Durham Cricket Club Floodlights  
Portobello

## 4. Executive Summary

### 4.1 Overall Conclusion

The work undertaken and assessment of the control environment enables us to give the following opinion:

**Full Assurance** - There is a highly effective system of internal control in place designed to achieve the system objectives with no issues being identified.

### Key Findings

The table below highlights the main points identified during the course of our audit work.

<p><b>Assurances</b></p> <p>Our review identified controls operating from which positive assurances can be taken. These include, but are not limited to, the following:</p> <ul style="list-style-type: none"><li>• Loans are all subject to a funding agreement, containing all relevant information such as drawdown and repayment schedule, project timeline and deliverables, monitoring conditions.</li><li>• Loans are monitored effectively to ensure outputs are delivered and repayments are made appropriately.</li><li>• Where repayments are not made as agreed, an escalation and reporting process is in place, and appropriate action is taken to recover arrears or to instigate legal enforcement.</li></ul>
<p><b>Control weaknesses impacting on assurance (high and medium only)</b></p> <p>None identified.</p>
<p><b>Opportunities to enhance efficiency and value for money</b></p> <p>None identified.</p>

## Appendix A – Definitions

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### Levels of Assurance (Section 4.1)

**Full Assurance** - There is a highly effective system of internal control in place designed to achieve the system objectives with no issues being identified.

**Substantial Assurance** - There is an effective system of internal control in place designed to achieve the system objectives with only minor issues being identified which require improvement.

**Moderate Assurance** - There is a partially effective system of internal control in place with some weaknesses being present which may put some of the system objectives at risk. Issues require management attention.

**Limited Assurance** - The system of internal control in place has significant weaknesses which may put the achievement of the system objectives at risk. Issues therefore require prompt management attention.

**No Assurance** – The system of internal control is ineffective and will result in failure to achieve the system objectives. Immediate management action is therefore required.

### Findings and Recommendations (Appendix A)

#### Finding Type

**Ineffective control / governance:** The controls / governance arrangements in place are ineffective in mitigating risks and / or achieving expected outcomes. There is a weakness in the design of the control.

**Controls / governance non-compliance:** The controls / governance arrangements in place should be effective in mitigating risks and / or achieving expected outcomes. However, officers are not complying with the controls / governance arrangements in place which represents a weakness in the system.

**Efficiency / VFM:** The area is not operating in an efficient manner and opportunities to enhance value for money, efficiency or generate additional income have been identified.

#### Recommendation Category (Appendix A)

**High Priority:** Recommendations relating to important matters that are fundamental and material to the system of internal control and should be addressed as a matter of urgency. Failure to implement these recommendations might cause a system objective not to be met or leave a risk unmitigated.

**Medium Priority:** Recommendations relating to matters that have an important effect on the system of internal control but do not require immediate action. Failure to implement these recommendations may not prevent a system objective being met in full or in part, or a risk being adequately mitigated, but the weakness represents a significant deficiency in the system.

## Appendix A – Definitions

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**Low Priority:** Recommendations relating to issues that would, if corrected, improve the system of internal control in general but are not vital to the overall system of internal control.

**Efficiency / VFM:** Recommendations relating to issues, that if addressed, would enhance value for money, efficiency or generate additional income. These issues should be addressed at earliest opportunity to maximise the benefits.