

<b>FINAL AUDIT REPORT</b>	
<b>CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY: LEP GOVERNANCE</b>	
<b>Date of Report:</b>	April 2019
<b>Audit Opinion:</b>	<b>Reasonable Assurance</b>



<b>CIRCULATED TO / FOR ACTION</b>	
John Hill, Interim Chief Executive	
Kim Sawyer, Interim Chief Executive	
Noel O'Neill, Interim Chief Financial Officer	
<b>Authorised by:</b>	<u>Steve Crabtree, Chief Internal Auditor</u>

<b>Actions:</b>	
<b>Category</b>	<b>No.</b>
Critical	<b>0</b>
High	<b>1</b>
Medium	<b>7</b>
Low	<b>0</b>
<b>Total Actions To Be Addressed</b>	<b>8</b>

The matters raised in this report are only those that came to the attention of the auditor during the course of the 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 part to third parties without prior written consent of the appropriate Director, Head of Service or the Chief Internal Auditor. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

## **EXECUTIVE SUMMARY**

### **Introduction**

The Local Enterprise Partnership (LEP) is a partnership between business and the public sector, predominantly in the Cambridgeshire and Peterborough area, but also covers a number of adjoining authorities and has been created to oversee expenditure on infrastructure and associated investments to deliver growth. The LEP was incorporated into the Cambridgeshire and Peterborough Combined Authority (CPCA) in April 2018. A separate Business Board has been created to fulfil this function and a shadow Board was in operation until September 2018 to allow for recruitment.

The CPCA is the Accountable Body for the Business Board (for both the financial arrangements and governance matters). As the LEP is a recipient of public funds – primarily the Local Growth Fund – the Government requires the LEP to fulfil various governance requirements. Following a national review of LEPs, Central Government<sup>1</sup> has produced a paper which sets out requirements on governance and performance monitoring together with details of a revised National Local Growth Assurance Framework. This replaces the previous LEP National Assurance Framework; the Single Pot Assurance Framework under the Cambridgeshire and Peterborough Devolution Deal and funds added to the Single Pot since then, for example, Adult Education Budgets. The overarching document seeks to provide a common framework of understanding of the assurance required for local growth funding.

The framework should be completed by CPCA and submitted to MHCLG annually. There is a dedicated compliance team in the CLGU who undertake a series of in-depth checks to ensure that the frameworks meets requirements.

### **Objectives of the Audit**

With the amalgamation of the LEP into the CPCA, this audit sought to review the LEPs compliance, or otherwise, with the requirements set out in the National Assurance Framework. This included that:

- The LEP has a local assurance framework in place, as required by the Government's National Assurance Framework
- The LEP is operating under a clear governance framework

This audit was conducted in accordance with proper audit practices, which are set out in the Public Sector Internal Audit Standards (PSIAS). The audit was planned and performed so as to obtain all relevant information and sufficient evidence to express an opinion.

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<sup>1</sup> Cities and Local Growth Unit (CLGU); Department for Business Energy and Industrial Strategy (BEIS); and Ministry of Housing, Communities and Local Government (MHCLG)

## **Main Findings**

There has been good progress in establishing a clear framework which brings together the previous arrangements. A number of areas have been identified which need to be addressed to ensure governance as effective. Those identified as requiring attention include:

- Increased transparency in relation to data available and how value for money is achieved;
- Development of a consistent brand identity; and
- Processes in place for the recovery of funds should any project be deemed to have misused public monies etc.

There are a number of other recommendations made to tighten up the framework.

## **Opinion**

The findings of the audit give REASONABLE ASSURANCE on the effectiveness of the governance arrangements that has been established within the Assurance Framework.

## **Acknowledgement**

Internal Audit would like to thank officers consulted in the course of this review for their time and assistance.

Observations	Priority	Recommendations
<b>ASSURANCE FRAMEWORK</b>		
<p>CPCA has established an overarching Assurance Framework which sets out the roles and responsibilities for the:</p> <ul style="list-style-type: none"> <li>• CPCA;</li> <li>• CPCA membership (including voting or non-voting);</li> <li>• Role of the Mayor;</li> <li>• Role of elected LA Leaders; and</li> <li>• Business Board.</li> </ul> <p>These are consistent with the Business Board Constitution which was last reviewed in September 2018. It is due for annual review in future and its next approval is scheduled for the May 2019 meeting.</p> <p>Both the national framework and local framework have been published on the CPCA website (under the Business Board sub-heading). The framework was submitted in March 2019 to various committees for discussion, challenge and subsequent approval. These were the Business Board; CPCA Board and the Audit and Governance Committee.</p> <p>Key elements of the Assurance Framework refer to:</p> <ul style="list-style-type: none"> <li>• Clear rules governing conduct of Board members (as per the “7 Principles of Public Life”) and what scrutiny arrangements are in place;</li> <li>• A clear vision for reporting back to the Board. It has a private sector Chair and majority private sector membership. This includes an SME representative (which is the Chair);</li> <li>• Requirements for membership of any sub-groups and diversity requirements to reflect the local business community;</li> <li>• The Accountable Body ensures that decisions are in line with the Framework. This clarifies circumstances where the Accountable Body would not comply with a decision and sets out the process for resolving these conflicts;</li> <li>• Sets out a requirement for funding proposals to have clearly defined inputs, activities, outputs and outcomes;</li> <li>• Ensures that commercial, financial and management arrangements are appropriate for effective delivery; and</li> <li>• Sets out monitoring arrangements for funded projects and that monitoring and evaluation ties back to the business case.</li> </ul> <p>A separate review of the overall CPCA governance arrangements have been undertaken alongside this review to ensure that details within the Framework is consistent as well as in place. These have been reported separately.</p> <p>From our review, the following gaps have been identified in the Framework:</p>		

Observations	Priority	Recommendations	
<b>PUBLICATION OF FINANCIAL DATA</b>			
<p>There is a requirement for the transparent publication of financial data. Current information on the website only makes reference to the wind up / closure of the LEP. (It is recognised that the current website remains under development).</p> <p>As a minimum the website should include financial data in relation to:</p> <ul style="list-style-type: none"> <li>• The various projects approved;</li> <li>• Details as to all grants receivable and their allocations;</li> <li>• The closure of the accounts for each year; and</li> <li>• Disclosure of payments made to the Board (see Board remuneration below)</li> </ul>	Medium	<p><b>Recommendation 1:</b></p> <p>The CPCA should increase the level of information provided on its website, with particular reference to financial data as outlined in the national framework.</p>	
<b>Management Comments</b>			
<p>All payments made on behalf of the Business Board are published in the monthly transparency report by Cambridgeshire and Peterborough Combined Authority.</p> <p>All approvals for new funding are now published and monitored. The quarterly return to BEIS on Growth Fund projects, spend and performance is reported to Business Board and published in the reports, as part of the Business Board agenda. These have now also been uploaded on the Business Board section of the website and will continue to be published going forward to increase transparency.</p> <p>Closure of accounts:</p> <p>2018-19 is the first year in which the CA's accounts would include the LEP's functions and they will not be closed and signed off by Audit and Governance Committee until later in the year. Once signed off the 2018-19 accounts will be published on the CPCA website.</p>			
<b>Agreed Actions</b>			
<p>In addition to publishing the quarterly return to BEIS on growth fund projects, spend and performance, the quarterly returns will be published separately on the Business Board section on the website under "projects" to increase transparency.</p>			
Due Date:	Ongoing - Quarterly	Action by:	Noel O'Neill, Chief Financial Officer Robert Emery / Jon Alsop



Observations	Priority	Recommendations	
<b>PROJECT DELIVERY</b>			
<p>A list of current projects published on the website are as at April 2018.</p> <p>As opportunities arise throughout the year to allocate additional funds as bids are received etc. this list should be regularly refreshed so as to demonstrate to the public the regular appraisal / approval of schemes and to the business community the funding may still be available for bidding.</p>	Medium	<p><b>Recommendation 4:</b></p> <p>Details on the website should be regularly refreshed as additional projects are approved and funding allocated.</p>	
<b>Management Comments</b>			
<p>No new projects were approved until January Business Board as finding had not been released by Government. The BEIS report will be updated on the basis of new decisions.</p> <p>All current projects are now available on the website and will be updated as new projects are agreed, processed and accepted by the recipient.</p> <p><a href="http://cambridgeshirepeterborough-ca.gov.uk/business-board/opportunities">http://cambridgeshirepeterborough-ca.gov.uk/business-board/opportunities</a></p>			
<b>Agreed Actions</b>			
No further action required			
Due Date:	Ongoing	Action by:	John T Hill, Director Business and Skills

Observations	Priority	Recommendations
<b>ENGAGEMENT</b>		
While the Assurance Framework details how engagement and consultation will be undertaken with local partners and the public it does not demonstrate how the Business Board will evidence that it has been effective.	Medium	<b>Recommendation 5:</b> The CPCA should determine how it will demonstrate effective consultation for each area of activity. This could include, but not limited to, the number of bidders received for funding compared with those successful etc.
<b>Management Comments</b>		
CPCA had undertaken a large consultation with the wider community to deliver the CPIER. Extensive measurement of responses has been undertaken. Business Board has followed this up with a major exercise to create the Local Industrial Strategy that will underpin all of its work. Extensive engagement has enabled the delivery of one of the first Local Industrial Strategies agreed with Central Government. A review of engagement activity and impact will be undertaken as part of the Annual Delivery Plan we produce each year		
<b>Agreed Actions</b>		
The review of engagement for the CPIER and LIS has been drafted and will go up on the Business Board website that covers the past year. Next year a review of engagement will be part of the Annual Delivery Plan.		
Due Date:	From May 2020	Action by: John T Hill, Director Business and Skills



Observations	Priority	Recommendations
<b>BOARD REMUNERATION</b>		
<p>The Assurance Framework states that Business Board members will be based on its scheme and this is also reflected within the Constitution.</p> <p>We have not been able to locate the said scheme. It is assumed that no monies have been paid to date.</p> <p>As part of the published financial data on the website, it would be prudent to publish details as to any payments made, even if this is a NIL return.</p>	Medium	<p><b>Recommendation 6:</b></p> <p>There should be an annual declaration of all payments made to Board members and this should be published on the website.</p>
<b>Management Comments</b>		
<p>The Business Board did agree an interim allowance for the Chair and an interim expenses scheme for other Board members. The interim expenses scheme and the schedule of payments have been published on the website. Link below</p> <p><a href="http://cambridgeshirepeterborough-ca.gov.uk/business-board/governance/">http://cambridgeshirepeterborough-ca.gov.uk/business-board/governance/</a></p> <p>An Independent Remuneration Scheme has been established to consider an allowance scheme for the Business Board membership, and this is due to report to the Business Board and Combined Authority Board after May 2019. The scheme and any allowances paid under the scheme will be published in 2019/20</p>		
<b>Agreed Actions</b>		
When an allowance and expenses scheme is approved, it will be published on the Business Board website.		
Due Date:	Following agreement of any scheme by the Business Board	Action by: Howard Norris, Monitoring Officer

Observations	Priority	Recommendations
<b>GOVERNMENT BRANDING</b>		
<p>There is a requirement that all schemes follow strict government guidelines in relation to their branding.</p> <p>There is no reference to this within the Framework and hence it is unclear how this has been addressed in relation to government branding guidelines for projects</p>	Medium	<p><b>Recommendation 7:</b></p> <p>Details in relation to specific branding requirements should be included on the website.</p>
<b>Management Comments</b>		
<p>Agreed. We will look at consistency across the Business Board activity.</p> <p>The website has recently been reviewed to ensure it complies with Government branding requirements. Beyond website branding we will create guidance for our organisation so that social media, signage etc. expectations are clear for every Government funded project</p>		
<b>Agreed Actions</b>		
Create guidance for our organisations so that social media, signage etc. expectations are clear for every Government funded project		
Due Date:	November 2019	<p>Action by:</p> <p>John T Hill, Director Business and Skills Paul Raynes, Director Delivery and Strategy</p>

Observations	Priority	Recommendations
<b>RECOVERY OF FUNDING</b>		
<p>While each project should have been appropriately assessed through its business case prior to have been granted funding and monitored through its life, there may be occasions when projects fail.</p> <p>Currently, there are no arrangements established should there be the need to recover funding where there has been non-compliance, misrepresentation or under performance.</p>	High	<p><b>Recommendation 8:</b></p> <p>In order to meet the Framework requirements to protect public funds, the CPCA should establish appropriate processes for the recovery of any funding deemed to have not met agreed standards or misused.</p>
<b>Management Comments</b>		
<p>All Growth Fund schemes have a funding agreement that sets out the outputs that are required and the schedule of payments that are to be paid. These are examined at each point in the claim. There is a requirement as in recommendation 3 to review projects on completion. This has already been identified and action taken.</p> <p>Some action is underway on a completed scheme that has now ceased to trade.</p>		
<b>Agreed Actions</b>		
Review funding agreements to make it clearer what our recovery action will be.		
Due Date:	October 2019	Action by: Noel O'Neill, Chief Financial Officer Robert Emery, Jon Alsop

## INTERNAL AUDIT RECOMMENDATION GRADES

<b>Critical</b>	Extreme control weakness that jeopardises the complete operation of the service. <b>TO BE IMPLEMENTED IMMEDIATELY.</b>
<b>High</b>	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. <b>To be implemented as a matter of priority.</b>
<b>Medium</b>	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. <b>To be implemented at the first opportunity.</b>
<b>Low</b>	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust. <b>To be implemented as soon as reasonably practical.</b>

## INTERNAL AUDIT OPINIONS

<b>OPINION</b>	<b>DESCRIPTION</b>
<b>Substantial</b>	The internal control system is well designed to meet objectives and address relevant risks, and key controls are consistently applied. There may be some scope to improve the design of, or compliance with, the control framework in order to increase efficiency and effectiveness.
<b>Reasonable</b>	The internal control system is generally sound but there are some weaknesses in the design of controls and / or the inconsistent application of controls. Opportunities exist to strengthen the control framework and mitigate further against potential risks.
<b>Limited</b>	The internal control system is poorly designed and / or there is significant non-compliance with controls, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
<b>No</b>	There are significant weaknesses in the design of the internal control system, and there is consistent non-compliance with those controls that exist. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.