

## INTERNAL AUDIT REPORT

**FROM:** Audit and Risk Manager      **SUBJECT:** Economic Development  
**TO:** Head of Development Services      **DATE:** 23 January 2018  
**C.C.** Chief Executive  
Deputy Chief Executive (BH)  
Head of Finance  
Policy & Projects Manager  
Business Manager (Policy & Development)  
Business Manager (Enterprise)  
Portfolio Holder (Cllr. Butler)

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### 1 Introduction

- 1.1 In accordance with the Audit Plan for 2017/18, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

### 2 Background

- 2.1 Previous audits of Economic Development have covered two distinct elements of the services provided by Economic Development staff.
- 2.2 The latest audit (March 2015) covered 'general', high level process such as the policies in place, the roles and responsibilities of staff, partnerships in place, and performance.
- 2.3 The audit prior to that (March 2010) had looked at the Enterprise facilities that the Council operates and covered the standard topics that are looked at for outlying establishments.

### 3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 It was agreed that the audit would combine the scopes of the previous two audits so the audit, therefore, covered the following areas:

'General' aspects:

- Strategies and policies
- Partnership working
- Performance management and reporting
- Grant awards

Enterprise facilities:

- Ordering and payments
- Procurement cards
- Salaries and wages
- Income
- Facilities and risk management
- Budget planning and management.

### 3.3 The control objectives examined were:

'General' aspects:

- Economic development is encouraged by the Council in a structured manner
- The Council is taking appropriate steps to ensure its work in relation to economic development is effective
- Businesses are aware of the support that the Council is able to offer
- The Council works with partners to encourage the economic development of the district
- The Council is able to identify whether the partnerships in place in relation to economic development are effective
- The Council is able to identify whether its work in relation to economic development is effective
- The Council is able to provide financial support to relevant organisations that aim to enhance the economic development of the district
- Grant monies are spent appropriately
- Grant funding available is appropriate
- Businesses / organisations are aware of the grant funding that is available to them

Enterprise facilities:

- All purchases are valid, bona fide and transacted only with the consent of authorised budget holders
- Goods and services procured are competitively priced, with the procurement processes complying with relevant legislation
- Procurement cards are securely held
- Procurements cards are being used appropriately
- Staff are properly appointed and are only paid for time worked
- Customers are aware of the amount they are expected to pay for using the council's services
- Sundry debts are appropriately raised and received
- Income is maximised
- The sites are secure and safe
- Management are aware of valuable items held on site
- Management are aware of the risks associated with the provision of the facilities
- The facilities in place are used appropriately by tenants
- Budgets are effectively managed.

## 4 Findings

### 4.1 Recommendations from Previous Reports

- 4.1.1 The current position in respect of the recommendation from the audit reported in March 2015 is as follows:

Recommendation	Management Response	Current Status
1 Formal arrangements for scrutiny of DMO (Destination Management Organisation) reports and accounts by senior management and Members should be established.	Board reports to be circulated by the Economic Development & Regeneration Manager to Head of Development Services and the Head of Finance. An annual Scrutiny Report or Presentation (depending on preference of scrutiny) will be presented.	The Business Manager (Policy & Development) (BMPD) suggested that the Shakespeare's England board reports are not being circulated to the Head of Development Services or the Head of Finance. Reports are however being passed to Overview & Scrutiny on an annual basis (see 4.3.8 below).

- 4.1.2 The current position in respect of the recommendation from the audit reported in March 2010 is as follows:

Recommendation	Management Response	Current Status
1 Finance should be made aware of the correct fees and the VAT position so that they are accurately recorded in the next fees and charges report produced for approval by Executive.	A correct report was requested in autumn 2010 by Finance and was provided by the Enterprise Support Officer on 14/09/2010. A further copy will be provided ASAP for their file. We have, however, changed tack with regard to the VAT increase and have adjusted our figures for subscribers and 'hot-deskers'.	Relevant fees are now accurately reported (see 4.9.2 below).
2 Confirmation should be obtained that the delegated powers are in place for the Enterprise Development Manager or the Business Enterprise Manager to offer incentives to prospective tenants.	To be discussed and obtained.	The authority to offer 'incentives' has now been formally delegated (see 4.9.10 below).

Recommendation	Management Response	Current Status
3 The operational risk register should be reviewed to ensure that it covers all relevant risks relating to the provision of the enterprise facilities.	Operational risk register to be reviewed and revised.	Relevant health & safety assessments could not be located (see 4.10.8 below).
4 The inventory for the enterprise facilities should be reviewed on an annual basis with updates being performed as necessary.	Enterprise facilities inventory to be updated and diarised for annual revision, with major additions etc. being actioned as and when required.	An inventory was found to be in place and this had been reviewed during the current financial year (see 4.10.4 below).

## 4.2 Strategies & Policies

- 4.2.1 The Council's main Fit For the Future (FFF) strategy has Money as one of the themes. Following the recent review of the strategy, the document details both the internal and external intended outcomes for each theme and how these aims are to be supported.
- 4.2.2 The external outcomes for Money are essentially the 'prosperity' aims, including: (a) dynamic and diverse local economy; vibrant town centres; improved performance / productivity of (the) local economy; and increased employment and income levels.
- 4.2.3 One of the supporting documents referenced is the District Strategic Economic Plan, although this is actually the Prosperity Priority Action Plan (PPAP). This contains 10 'Prosperity Priority Principles' and a number of actions have been identified for each one.
- 4.2.4 The BMPD advised that some of these involve staff from various teams (i.e. not just Economic Development staff) and some fall outside of the direct control of the Council (e.g. due to the work of partners).
- 4.2.5 He highlighted that there will be formal reviews of the progress against the actions, but as it was a fairly new document the review points had not yet been reached.
- 4.2.6 The BMPD suggested that the main communication channel being used at the moment to highlight the economic development work being undertaken is the Economic Development Update Newsletter.
- 4.2.7 This was originally put in place to advise the Portfolio Holder of the projects and activities that the team was working on, but it is now distributed to all Councillors, members of SMT, the Leamington BID team and the town and parish councils.

- 4.2.8 However, there is no official communication with businesses. Some work is done with specific sectors (general technology and gaming sectors) and different methods of communication will be employed.
- 4.2.9 There has been some social networking, although this tends to be input to twitter accounts that are not Economic Development specific (e.g. tech central and silicone spa), or are related to specific events (e.g. Coventry & Warwickshire Business Festival Facebook page).
- 4.2.10 As Internal Audit have an audit of communication planned for later in the financial year, the social networking potential will be further investigated at that stage.

#### 4.3 **Partnership Working**

- 4.3.1 The BMPD advised that there are no formal partnerships as such any more, although there are relevant contracts, informal partnerships, and 'memberships'.
- 4.3.2 The most formal of these arrangements relate to the Leamington BID and Shakespeare's England (Destination Management Organisation) (SE).
- 4.3.3 The BID membership is a statutory requirement and as such, there is no partnership agreement in place. However, there is a business plan in place for the BID which sets out the overall vision and the aims and objectives that sit underneath this
- 4.3.4 There is a destination management plan (DMP) in place for SE that sets out its priorities. The BMPD highlighted that the Council's 'agreement' with SE is in the form of a number of specific criteria as to how SE has an impact on Warwick District.
- 4.3.5 Formal meetings are held for both the BID and SE with these being minuted. Any relevant actions are recorded as required.
- 4.3.6 The BMPD advised that there are no regular reports to management or Councillors on BID other than for the 'bigger events' such as the approval of the business plan and any renewals. The current BID period runs out in 2018, so the renewal process has already started and reports have been presented to Executive to advise them of the situation.
- 4.3.7 He highlighted that all relevant businesses get a vote on the BID's plans and, as the Council operates a number of buildings, we get a number of votes. He also suggested that it is hoped that there will be a Service Panel that sits below the board where the day-to-day issues can be covered and reported on where necessary.
- 4.3.8 An annual report is presented to Overview & Scrutiny Committee (O&S) which highlights the achievements of SE. These are reviewed to ascertain whether their performance meets the criteria set by the Council. However, as recommended at the time of the previous audit, relevant Heads of Service are not being presented with the SE board reports.

## **Risk**

**Transparency and accountability for Shakespeare's England's operation and finances may be impaired.**

## **Recommendation**

**Formal arrangements for the scrutiny of Shakespeare's England's reports and accounts by senior management should be established.**

- 4.3.9 Where relevant, the Business Portfolio Holder will also cover the arrangements in his updates provided to O&S.

### **4.4 Performance Management & Reporting**

- 4.4.1 The Service Area Plan (SAP) for Development Services contains a number of specific measures relevant to the Enterprise function as opposed to the wider Economic Development team. These are generally considered to be 'SMART'.
- 4.4.2 Quarterly updates on the SAP measures are usually compiled by the Information & Improvement Officer and a recent copy was provided. The Policy & Projects Manager advised that if there were any issues in relation to the measures they would be discussed at the meetings of the departmental management team.
- 4.4.3 The BMPD advised that it is hard to put relevant measures in place for the wider prosperity aims as they are not easily quantifiable. Therefore, the PPAP contains the plans for the team, with the actions identified being reasonably flexible. As previously highlighted (see 4.2.5 above), this is a fairly new document and, as such, there has been no formal review of progress to date.

### **4.5 Grant Awards**

- 4.5.1 The BMPD highlighted that the main funds available (from the Tourism budget) do not have to be applied for but are amounts given to specific organisations, specifically SE and Warwick Town Council regarding their Visitor Information Centre (VIC).
- 4.5.2 The agreement in relation to (continuation of) the funding given to SE was given in June 2016 following a report to Executive. At this time, it was also agreed that the VIC services should be comprehensively reviewed. This took place and the current (grant) funding arrangements were agreed following a further report to Executive (January 2017).
- 4.5.3 Monitoring is performed to assess whether SE is meeting the targets set (see 4.3.8 above). As per the agreement with Executive, there is potential for the SE funding to be reviewed on an annual basis, but as of yet, the funding hasn't changed.
- 4.5.4 The VIC had submitted a business plan to set out how they would operate and performance against this is required, although the BMPD suggested that none of the measures were onerous.
- 4.5.5 The BMPD also advised that other funding may be made available to support specific projects from the general Economic Development budget, but these

would be ad-hoc and would not require formal applications etc. As such and due to the limited funding available, there is no promotion undertaken to make organisations aware that the funding is available.

#### 4.6 **Ordering & Payments**

4.6.1 A sample of orders placed against the relevant Enterprise budgets was reviewed to ensure that they were being properly raised and authorised and that the resulting payments were only made against appropriate invoices once the receipt of goods had been confirmed. This test proved generally satisfactory.

4.6.2 However, in two cases where appropriate annual orders are in place for monthly contract costs, additional expenditure had been placed against the order when separate orders should have been raised.

##### **Risk**

**Managers may be unaware of the outstanding liabilities against their budgets.**

##### **Recommendation**

**Separate orders should be raised where work or items over and above the normal contracted works are procured from contractors.**

4.6.3 A TOTAL extract was taken of all orders placed against the relevant cost centres which was refined to show cleared (or part cleared) orders that had been placed from 1 April 2016 onwards and was then summarised to identify suppliers who had received orders totalling £2,000 or more (which would roughly equate to orders of £5,000 over a four year contract).

4.6.4 The procurement processes that had been followed for these suppliers was then reviewed by reference to the contract register and other relevant sources of information. It was confirmed that appropriate procurement processes had been followed in each instance.

#### 4.7 **Procurement Cards**

4.7.1 The Business Manager (Enterprise) (BME) advised that she and the Enterprise Support Officer have procurement cards and they confirmed that they hold them in their purses.

4.7.2 Upon review of procurement card transaction logs for the current financial year, it was confirmed that purchases were reasonable, although there were a few higher value purchases (£100 or more).

4.7.3 These items of expenditure were queried with the BME who provided satisfactory explanations as to the need for using the procurement cards in these cases.

#### 4.8 **Salaries & Wages**

4.8.1 Upon review of TOTAL, payments to four staff members were identified. It was noted that staff payments were split between two of the cost centres

(Althorpe Enterprise Hub and Court Street Creative Arches). The BME advised that this was historical, based on the initial funding streams.

- 4.8.2 Whilst no formal recommendation is considered necessary (as there is no risk in maintaining the status quo) consideration should be given to consolidating the costs onto one budget to enable easier budget review.
- 4.8.3 All overtime and expenses payments are now input directly onto the payroll system through the self-serve processes with managers authorising the payments directly on the system.
- 4.8.4 The BME advised that she checks mileage claims to the related log sheets and checks calendars for overtime claims. Due to the system based checking, no testing is possible as evidence of the check being performed is not available.

#### 4.9 **Income**

- 4.9.1 Due to the nature of the income received by the Enterprise facilities, there is no need to formally publicise the fees and charges that are applicable. The BME advised that prices will be provided upon request, with negotiation being allowed in the case of formal leases.
- 4.9.2 Other relevant fees (i.e. use of the facilities that are not covered by formal leases) are set as part of the annual fees and charges process, with the fees being formally agreed by Members.
- 4.9.3 All income is received following the raising of invoices. Some of these are periodic invoices raised by the FS Team with others being raised directly by the Enterprise staff.
- 4.9.4 The BME provided various spreadsheets that are used to detail the charges that are to be levied against the tenants. She highlighted that invoices are generally raised in advance, although two tenants are on a 'Tenancy At Will' which requires invoicing in arrears, but these are exceptional cases.
- 4.9.5 Sample testing was undertaken to ensure that invoices had been raised correctly in accordance with the supporting information provided. The sampled invoices raised were generally found to be in accordance with the supporting information provided although a number of minor anomalies were identified and these were queried with the BME.
- 4.9.6 On the whole, these were adequately resolved, although it was established that a few (immaterial) errors had been made. One issue noted was that there was a lack of consistency in the way that day rates were being calculated in the 'Tenancy At Will' cases. Again, there is no risk attached to this (variances are a few pence either way), but a standard approach should be adopted.
- 4.9.7 Outstanding debtor account reports are produced every two weeks which show any Enterprise invoices that have not been paid by the relevant date. These are reviewed with action being taken as appropriate.



- 4.9.8 The BME provided a copy of the latest report and advised that the tenant had overlooked the bill for the one overdue payment shown and it was due to be paid. Upon review of TOTAL it was confirmed that the instalment had now been paid and the tenant was up to date with their payments.
- 4.9.9 The BME advised that incentives are not required very frequently any more as there are good occupancy levels at the facilities. However, there is still the potential to offer incentives (e.g. three months half-price) for new start-ups.
- 4.9.10 The authority to offer these incentives has been delegated to the BME by the Head of Development Services and an email was held which confirmed this to be the case.

#### 4.10 **Facilities & Risk Management**

- 4.10.1 No specific site walk-rounds were undertaken as security had recently become an issue following break-ins at the Althorpe Enterprise Hub (AEH) and one of the Court Street Arches. Security was, therefore, being reviewed.
- 4.10.2 The BME advised that people renting offices at AEH have swipe cards to access the building and a back door key for out-of-hours access. However, following the break in, she had asked for new barrel locks to be installed for each office along with a management set of keys.
- 4.10.3 At Court Street, the tenants are responsible for their own access (as they are self-contained leases).
- 4.10.4 An inventory was provided and it was confirmed that this had been updated during the current financial year. However, the BME advised that she was awaiting the full list of damage etc. from the recent burglary before updating it further.
- 4.10.5 The Development Services (Business Portfolio) risk register includes a number of relevant, specific risks relating to the Enterprise function as well as generic risks and others relating to the other teams within the service.
- 4.10.6 The copy provided was dated June 2017 and contained evidence of review, with some Enterprise risks shown as deleted due to the negligible risks that remained.
- 4.10.7 Upon review of AssessNet there were no relevant risk assessments for the facilities other than fire risk assessments for the AEH, 26 Hamilton Terrace (26 HT) and Spencer Yard.
- 4.10.8 The BME suggested that a health and safety assessment had been carried out when the Council's previous Health & Safety Adviser had been in post although this could not be located. She advised that there had been no formal assessments undertaken since then, although general monitoring (e.g. ensuring exits are not blocked, fixtures and fittings and maintained etc.) is undertaken on an ongoing basis.

**Risk**

**Staff and tenants at the facilities may face health and safety risks.**

**Recommendation**

**Formal health and safety assessments should be organised with the Building Manager and Health & Safety Coordinator.**

- 4.10.9 The BME confirmed that tenants would be advised of the acceptable uses of the buildings as part of their sign up to the terms and conditions. Essentially, the AEH and 26 HT are office suites and applications looking for 'other uses' would be turned down. The leases for Court Street also highlighted what is classed as 'permitted use' along with some specific prohibited uses.

**4.11 Budget Planning & Management**

- 4.11.1 In general budget terms, the BME highlighted that 26 HT has now been brought under the 'umbrella' that ensures that any surpluses made are used towards economic development.
- 4.11.2 An extract was taken from TOTAL and the budget position for the current financial year and the 2016/17 outturn were discussed with the BME.
- 4.11.3 On the whole the variances were appropriately explained, although it was noted that there are no budgets set for legal fees. Whilst it may be hard to accurately predict expenditure, some expenditure is likely, so a budget should be in place.

**Risk**

**Managers may not be able to monitor their budgets appropriately.**

**Recommendation**

**Budgets should be included for legal fees for each relevant facility.**

**5 Conclusions**

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Economic Development are appropriate and are working effectively.
- 5.2 The assurance bands are shown below:

<b>Level of Assurance</b>	<b>Definition</b>
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

- 5.3 A number of minor issues were, however, identified:
- Management are not being given board reports from Shakespeare's England as recommended in the previous audit.
  - Separate orders are not being raised for goods and services procured from contractors that are over and above the normal contract.
  - Formal health and safety assessments need to be performed for the Enterprise facilities.
  - Budgets need to be set for legal services use at the Enterprise facilities.

## 6 **Management Action**

- 6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr  
Audit and Risk Manager

## Action Plan

## Internal Audit of Economic Development – January 2018

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.3.8	Formal arrangements for the scrutiny of Shakespeare's England's reports and accounts by senior management should be established.	Transparency and accountability for Shakespeare's England's operation and finances may be impaired.	Low	Strategic Economic Development Officer	The papers will be circulated on a quarterly basis following the meeting of the Shakespeare's England board.	March 2018
4.6.2	Separate orders should be raised where work or items over and above the normal contracted works are procured from contractors.	Managers may be unaware of the outstanding liabilities against their budgets.	Low	Business Manager (Enterprise)	A new practice will be introduced to ensure that separate orders are raised where appropriate.	With immediate effect
4.10.8	Formal health and safety assessments should be organised with the Building Manager and Health & Safety Coordinator.	Staff and tenants at the facilities may face health and safety risks.	Medium	Business Manager (Enterprise)	The Building Manager and Health & Safety Coordinator will be contacted to request formal health and safety assessments.	April 2018
4.11.3	Budgets should be included for legal fees for each relevant facility.	Managers may not be able to monitor their budgets appropriately.	Low	Business Manager (Enterprise)	Agreed. Financial Year 2018/19: Virements will be undertaken where needed to ensure that all projects have planned budgets (first review at budget monitoring process). From Financial Year 2019/20: Legal fees (contingency) will be set across all projects.	April 2018

\* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.  
Medium Risk: Issue of moderate importance requiring prompt attention.  
Low Risk: Issue of minor importance requiring attention.