

**WELLAND INTERNAL AUDIT CONSORTIUM**  
**Harborough District Council**

**INTERNAL AUDIT REPORT**



**Harborough Innovation Centre**  
**2014-15**

|                    |                               |                   |                           |   |
|--------------------|-------------------------------|-------------------|---------------------------|---|
| <b>Issue Date:</b> | 30 <sup>th</sup> October 2014 | <b>Issued to:</b> | Simon Riley               | Head of Financial Services & s151 Officer |
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|                    |                               |                   | Councillor Neil Bannister | Chairman of Governance & Audit Committee  |

# WELLAND INTERNAL AUDIT CONSORTIUM

## Harborough District Council

### Harborough Innovation Centre

#### EXECUTIVE SUMMARY

#### 1. INTERNAL AUDIT OPINION

The Harborough Innovation Centre (HIC) is a £4.1m development located to the North of Market Harborough. It provides flexible supported office accommodation for small and medium sized businesses. The project was to be funded primarily through European Regional Development Fund (ERDF) grant of £1.689m and East Midlands Development Agency (EMDA) single programme grant of £2.359m. The centre opened in 2012 and is managed by Oxford Innovation Limited, a company appointed by the Council as managing agents.

The audit was carried out as an advisory project in line with the scope set out in the approved Audit Planning Record. The Council is seeking assurance that the project has met its original objectives, that an appropriate governance framework is in place for the ongoing management and delivery of outcomes and that there is no significant risk of grant claw-back.

The audit was limited to interviews and review of supporting documentation. A full grant compliance audit has not been carried and it is therefore not possible to provide absolute assurance regarding the risk of grant claw-back.

Subject to the above, our testing found that all original objectives had been met, robust overall governance arrangements are in place and the risk of grant claw-back is, therefore, considered to be low. Overall, it is Internal Audit's opinion that the design and operation of controls provides **substantial assurance** that the identified risks have been sufficiently mitigated.

The opinion is based upon testing of the design and operation of controls to manage the three risks that the Council sought assurance on, as summarised below.

| Internal audit assurance opinion  | Direction of travel |                 |          |          |
|---|---------------------|-----------------|----------|----------|
| <b>Substantial assurance</b>  | N/A                 |                 |          |          |
| Risk  | Assurance           | Recommendations |          |          |
|   |                     | H               | M        | L        |
| Risk 1. That the project has not met its original objectives.                     | Substantial         | 0               | 0        | 0        |
| Risk 2. That the overall control and governance framework is not fit for purpose. | Substantial         | 0               | 0        | 0        |
| Risk 3. Claw-back of ERDF funding.  | Substantial         | 0               | 0        | 0        |
| <b>Total Number of Recommendations</b>  |                     | <b>0</b>        | <b>0</b> | <b>0</b> |

## WELLAND INTERNAL AUDIT CONSORTIUM Harborough District Council

### 2. AREAS WHERE CONTROLS WORKED AS DESIGNED

#### Risk 1- That the project has not met its original objectives

The table below sets out the identified objectives, as specified in the original Deed of Grant, and subsequent Deed of Variation issued by EMDA together with the actual outputs delivered to date.

| ERDF targets   | March 2011 | March 2012 | March 2013 | March 2014 | Total target | Actual achieved              |
|--|------------|------------|------------|------------|--------------|------------------------------|
| Total public and private sector investment levered       | £1m        |            |            |            | £1m          | £1.012m                      |
| New or upgraded floor space                              |            | 2787 m2    |            |            | 2782 m2      | 2906.94 m2                   |
| Brownfield land reclaimed or redeveloped                 |            | 0.67 ha    |            |            | 0.67 ha      | 0.67 ha                      |
| Number of job created                                    |            | 15         | 11         | 16         | 42           | 73                           |
| Number of businesses created and attracted to the region |            | 3          | 5          | 6          | 14           | 19                           |
| EMDA targets   | March 2011 | March 2012 | March 2013 | March 2014 | Total target | Actual achieved              |
| Number of jobs created or safeguarded                    |            | 3          |            | 25.8       | 28.8         | 73 created<br>86 safeguarded |
| Number of business created and attracted to the region   |            | 1.4        |            | 9          | 10.4         | 19                           |
| Land brought into beneficial use                         |            | 0.4 ha     |            |            | 0.4 ha       | 0.67 ha                      |
| Financial leverage – public and private investment       | £1m        |            |            |            |              | £1.012m                      |

Evidence to support the above outcomes has been seen but data in respect of jobs and businesses created has not been independently verified. On the basis of the information provided, Internal Audit has concluded that the project has met or exceeded its original objectives, although the Council should be prepared to supply independent evidence if requested by EMDA.

Based on the above findings, the assurance rating for this risk is **substantial assurance**.

#### Risk 2 – That the overall control and governance framework is not fit for purpose

Meetings of the HIC Strategy Board are held on a quarterly basis and fully documented minutes are produced. The board consists of senior officers from the Council, members, the centre manager (Oxford Innovation) and representatives of the businesses that occupy the centre.

## WELLAND INTERNAL AUDIT CONSORTIUM

### Harborough District Council

A management and operating agreement is in place between the Council and Oxford Innovation Ltd. The agreement specifies the operators' goal of achieving the highest possible occupancy at the best possible return. It also sets out an obligation for the operator to provide monthly accounting and management information in accordance with the Council's requirements and to attend monthly meetings.

Performance information is reported to the board on a regular basis, including financial performance, occupancy levels and ongoing delivery of outcomes related to jobs and businesses.

Based on the above findings, the assurance rating for this risk is **substantial assurance**.

#### Risk 3 – Claw-back of grant funding

At the time of audit, grant claims totalling £3.9m had been submitted and received. The latest funding position is set out in the table below.

| Source                      | Original<br>£000 | Actual to date<br>£000 | Difference<br>£000 |
|-----------------------------|------------------|------------------------|--------------------|
| ERDF grant                  | 1,689            | 1,565                  | -124               |
| Single Programme Grant      | 2,359            | 2,359                  | 0                  |
| Prospect Leicestershire Ltd | 0                | 1                      | +1                 |
| HDC                         | 175              | 287                    | +112               |
| <b>Total project costs</b>  | <b>4,223</b>     | <b>4,212</b>           | <b>-11</b>         |

The final ERDF claim has not yet been submitted and officers are in discussions to use some of the remaining balance to fund capital improvement works (e.g. air conditioning).

The Council's contribution has been primarily funded by £258k from earmarked reserves. It has not yet been determined how the remaining £29k will be funded, although it had been identified as unsupported borrowing in the 13/14 accounts.

Appropriate controls are in place for ensuring compliance with ERDF grant conditions. A separate ledger code is used to record all income and expenditure associated with the project and there is evidence of external review and challenge of claim forms by EMDA. Management of the single programme grant element of the funding was contracted out to an external consultant but no documentation of this process was obtained or retained by the Council. However, based on the information and evidence provided, particularly in respect of achievement of the original grant conditions (as set out at risk 1 above), Internal Audit is of the view that the risk of grant claw-back is low.

Based on the above findings, the assurance rating for this risk is **substantial assurance**.

### 3. ISSUES REQUIRING MANAGEMENT ATTENTION

- Limited information was available to support the Single Programme element of the grant funding. This part of the funding was managed by an external consultant but, based on discussions with officers, very little information appears to have been passed back to the Council on completion of the

## **WELLAND INTERNAL AUDIT CONSORTIUM Harborough District Council**

project. In future, all documentation relating to projects or funding managed by external consultants should be retrieved on completion of the appointment.

- During the audit it was noted that the final copy of the management agreement was not kept on file. A copy was provided by the Managing Agent and the Council has confirmed that a signed copy has been retained on the contract register retained by legal services.

#### **4. LIMITATIONS TO THE SCOPE OF THE AUDIT**

The audit addressed controls regarding the following risks:

- Risk 1 - That the project has not met its original objectives. The project established a number of financial and operational objectives from the outset. Failure to achieve the project specific objectives could impact on delivery of the Council's overall strategic vision and/or corporate priorities.
- Risk 2 - That the overall control and governance framework is not fit for purpose. Weaknesses in the overall control and governance framework may result in a failure to identify non-achievement of objectives and targets in a timely manner. Thus adversely affecting the Council's ability to take any necessary corrective action.
- Risk 3 - Claw-back of grant funding. Failure to identify and comply with all funding conditions could put the Council at risk of full or partial grant claw-back leading to unexpected financial pressures.

The audit opinion relates only to those areas of risk.

# WELLAND INTERNAL AUDIT CONSORTIUM

## Harborough District Council

### GLOSSARY

#### The auditor's opinion

The auditor's opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The table below explains what the opinions mean.

| Level              | Design of control framework   | Compliance with controls   |
|--------------------|---|--|
| <b>SUBSTANTIAL</b> | There is a robust framework of controls making it likely that service objectives will be delivered. | Controls are applied continuously and consistently with only infrequent minor lapses.    |
| <b>SUFFICIENT</b>  | The control framework includes key controls that promote the delivery of service objectives.        | Controls are applied but there are lapses and/or inconsistencies.                        |
| <b>LIMITED</b>     | There is a risk that objectives will not be achieved due to the absence of key internal controls.   | There have been significant and extensive breakdowns in the application of key controls. |
| <b>NO</b>          | There is an absence of basic controls which results in inability to deliver service objectives.     | The fundamental controls are not being operated or complied with.                        |

#### Category of recommendation

The auditor categorises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

| Category      | Impact & timescale  |
|---------------|---|
| <b>HIGH</b>   | Management action is imperative to ensure that the objectives for the area under review are met.<br><br>Recommendation to be implemented immediately with explanation to Governance & Audit Committee should the timeframe extend beyond three months.                            |
| <b>MEDIUM</b> | Management action is required to avoid significant risks to the achievement of objectives<br><br>Recommendation should be implemented as soon as possible with explanation to Governance & Audit Committee should the timeframe extend beyond six months.                         |
| <b>LOW</b>    | Management action will enhance controls or improve operational efficiency.<br><br>Recommendation should be implemented within six months but Governance & Audit Committee will be advised where the client specifies that a longer delivery time is necessary and / or justified. |

#### Limitations to the scope of the audit

The auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.