

# Coast to Capital

<b>Meeting:</b>	Coast to Capital Audit and Risk Committee Meeting
<b>Date:</b>	3 <sup>rd</sup> March 2022
<b>Report Title:</b>	Audit Update
<b>Report by:</b>	Cali Gasson
<b>Item No:</b>	3
<b>Part:</b>	A

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## Recommendation:

The Committee is asked to:

- **Note** the Internal Audit Strategy prepared by RSM UK and **agree** an internal audit plan for the 2022/23 financial year.
- **Note** the Payroll Audit being undertaken by Kreston Reeves.

### 1. Context

The Committee received an update in January to the progress to the approach and ambition to formalise a clear plan for Internal Audit, despite the continued uncertainties.

It was noted that RSM UK were commissioned to undertake a review on Coast to Capital, and to put forward a proposal for an internal audit strategy over the next 1-3 years, in addition to a further Audit being carried out by Kreston Reeves to review the Payroll function.

### 2. Internal Audit Strategy

RSM UK have performed a review to determine our assurance needs, and have prepared a detailed Internal Audit programme covering a 3 year period, as seen in **Annex A**.

This Audit strategy is proportionate to the size of our organisation, and is agile meaning we can still have the flexibility to respond to an uncertain year and continue to strategically align to the future direction of the organisation.

The three recommended areas for Internal Audit for the 2022/23 financial year are;

- Governance
- Internal Controls/Approval Processes
- Financial Planning and Management

The Audit and Risk Committee are asked to **agree** that these three areas can be prioritised for Internal Audit in the 22/23 FY, subject to Coast to Capital having greater certainty in relation to its financial position and the role of LEPs going forward.

### **3. Payroll Audit**

Kreston Reeves were appointed in January to undertake an audit on our Payroll service, to ensure Coast to Capital has the necessary assurances given that this service is currently outsourced.

A formal report with findings and any recommendations is expected imminently and will be shared with the Audit and Risk Committee at the next opportunity.

### **4. Next Steps**

Any recommended work on Internal Audit as mentioned above is subject to Coast to Capital getting confirmation and clarity around its financial position. We expect that this will become clearer by the end of March 2022.

Following this clarity, and if the Committee are happy to move forward with the three recommended audit areas for 2022/23, it is recommended that we continue to work closely with RSM UK in line with our procurement policy to prepare final detailed audit scopes along with a costing for each area of work.

### **5. Diversity Statement**

There are no diversity considerations to raise.

### **6. Legal Statement**

This paper has been reviewed by Brighton and Hove City Council in their role as the Accountable Body.

### **7. Financial Statement**

There is proposed budget allocation for Internal Audit in the 2022/23 financial year, but is subject to confirmations around Government and partner funding contributions.

### **Annexes:**

#### **Annex A: Internal Audit Strategy**



# COAST TO CAPITAL

## Draft Outline Internal Audit Strategy 2022-24

Presented at the Audit & Risk Committee meeting of 3 March 2022

This report is solely for the use of the persons to whom it is addressed.

To the fullest extent permitted by law, RSM UK Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party.



# CONTENTS

EXECUTIVE SUMMARY ..... 3

1. BACKGROUND AND METHODOLOGY **ERROR! BOOKMARK NOT DEFINED.**

2. INTERNAL AUDIT PLAN 2022/23 – 2024/25 ..... 5

FOR FURTHER INFORMATION CONTACT ..... 10

# EXECUTIVE SUMMARY

We were requested to undertake an exercise on behalf of Coast to Capital to review their assurance needs with a view to outlining a proposed internal audit programme over the next three years. This document therefore attempts to identify the assurance needs of the Organisation, taking account of the risks faced, the recent White Paper around Levelling up which acknowledged the role of Local Economic Partnerships (LEPs) and previous internal audit work planned and/or undertaken. The key points to note from our plan are:



**Levelling up White Paper:** Whilst the White paper on Levelling up does not provide great detail on the role of LEPs, it does outline an expected role for LEPs and therefore offer greater assurance around the medium to long-term viability of LEPs. Not only does this help to reduce some of the most imminent and largest risks facing the LEP it permits a greater potential for more medium and long-term planning.



**Internal Audit work to date:** Where internal audit work has been conducted to date this has tended to focus on a single risk and to be conducted, often by External Audit at an operational level. Whilst this is important in offering assurance that systems are designed and operating suitably it does not offer assurance to the Board around some of the more strategic risks facing Coast to Capital.



**Assurance Priorities:** When considering the potential focus for Internal Audit, it is recognised that for a relatively small organisation the ability to commit resource to large numbers of independent reviews to provide assurance may be limited. It is therefore important for Coast to Capital to consider how else it may get assurance, even if that is in the form of management or Committee challenge or risk deep dives.



**Focused areas for review :** In determining our understanding of your assurance priorities we have used your risk registers and cross referenced the areas where you may wish to consider internal audit reviews.

# 1. BACKGROUND AND METHODOLOGY

Our approach to developing your internal audit plan is based on analysing your corporate objectives, risk profile and other factors affecting Coast to Capital in the year ahead, including changes within the sector.

## Risk management processes and other Documentation

We have not formally assessed your risk management processes but as part of planning we have reviewed your Company Risk Register (January 2022). We have also used various sources of information to confirm our understanding of your risks and your assurance requirements. These include:

- Coast to Capital Business Plan;
- Minutes and papers to Board meetings 2021-22
- Minutes and papers to Audit & Risk Committee 2021-22
- Minutes and papers to Finance & Resources Committee 2021-22
- Internal Audit programme, scopes and reviews since 2019

We would like to thank the following for their time and assistance in discussing the assurance needs facing the Organisation and whose views and comments have been reflected in the internal audit and assurance programme which follows:

- Julie Kapsalis (Chair)
- Amanda Jones (Audit & Risk Committee Chair)
- Richard Hopkins (Finance & Resources Committee Chair)
- Anthony Middleton (Acting Chief Executive)
- Matt Wragg (Acting Head of Regional Projects)
- David Smith (Head of Investment)
- Kristel Smith (Head of Operations)
- Kirsten Trussell (Head of Skills & Innovation)
- Carli Foster (Head of Finance)
- Cali Gasson (Acting Head of Business Support, Programmes, & Assurance)
- Nick Darwin (Governance Officer)

Based on our understanding of the organisation, the information provided to us by stakeholders, and the regulatory requirements, we have outlined a proposed internal audit programme but have also set out other areas where you may wish to seek to undertake an internal review or a deep dive to consider the assurances available over risks in specific areas of the business.

## 2. INTERNAL AUDIT PLAN 2022/23 – 2024/25

The table below shows each of the reviews that in our view should be considered to enable the Board to attain the required assurance that controls are operating sufficiently to mitigate the principal risks to the achievement of your objectives. All of the risks cited within the document below are held within the Company's Risk Register, presented to the January 2022 Board.

Considering the resources available to support Internal Audit and the assurances available, we have limited the proposed numbers of individual reviews to three per year, augmented by some internal assurances and reviews via Committees and deep dives which will support the LEP's aim for continuous improvement. We would also propose ongoing monitoring of recommendations made as part of previous reviews, identified for follow up.

Objective of the review (Strategic risk)	Proposed timing
<p><b>Governance – Effectiveness</b></p> <p><b>Risk: Coast to Capital fails to meet compliance and/or governing procedures</b></p> <p><b>The Skills 360 Board is not compliant as a Skills Advisory Panel (SAP) and funding is withdrawn or future funding is not awarded</b></p> <p>Coast to Capital needs to be clear on its strategic objectives and a road map to their achievement. Governance arrangements need to support the Organisation in working towards the objectives whilst helping to protect the Organisation and prevent risks from materialising.</p> <p>A review could consider the following:</p> <ul style="list-style-type: none"> <li>• Are terms of reference for the Committees and Board clearly set out and aligned to requirements of the business and containing appropriate membership to achieve its aims?</li> <li>• Information assessment – is each Committee and the Board receiving the information it requires to fulfil its remit – could include questionnaire approach of key stakeholders and members?</li> <li>• Data Quality and underlying assumptions – building on the information assessment or potentially conducted as a standalone review – to consider the quality of the information presented to Board and key sub-committees – is the information based on robust underlying data and is information presented in such a way as to enable effective decision-making to take place. <b>In particular a focus on the financial information and projections presented to ensure suitable visibility and robustness of data.</b></li> </ul>	<p><b>Priority 1 – 2022/23</b></p>
<p><b>Internal Controls – Single point of failure</b></p> <p><b>Risk: Coast to Capital suffers a breakdown of internal control and/or approval processes</b></p> <p>A review to consider the critical processes within the business and how control is maintained. Coast to Capital rightly seeks to run a lean organisation meaning that separation of duties and hierarchical control can be difficult to apply at all places. Where this is recognised this can be partially mitigated through suitable escalation processes, review processes, analytical review etc. This review would work with Management and the Board to understand the critical decisions undertaken and to confirm how these are undertaken and how risks are mitigated.</p>	<p><b>Priority 1 – 2022/23</b></p>

Objective of the review (Strategic risk)	Proposed timing
<p><b>Financial Planning and Management</b></p> <p>To consider the robustness of the budget setting process and any underlying assumptions. Critically this may include a workforce review and how the LEP is ensuring it has identified the right resource to deliver its business plan. Potentially this review could link to elements of the Governance review and the robustness of the financial information could be considered here.</p>	<p><b>Priority 1 2022/23</b></p>
<p><b>Projects and Income</b></p> <p><b>Risk: Local projects do not create sufficient additional income for the LEP.</b></p> <p><b>2 x Programme management risks per Skills &amp; Innovation section of Company Risk Register</b></p> <p>The LEP has sought to diversify its income streams and provide commercial offerings based around consultancy support. The review would consider the robustness of the financial plan and the underlying assumptions, including the resources and skills required to deliver the plan. Depending upon the number and nature of projects underway, the review could also consider the project management processes in place to determine their suitability and walk through some projects to review their effectiveness and look to recommend where improvements to process could help improve outcomes. This could include any lessons learnt from major projects to help drive improvements for future projects.</p> <p>Also the potential to review some of the programme management risks to determine for instance whether the Skills action plan is being delivered as planned or whether the Careers Hub and EAN programmes are meeting their KPIs.</p>	<p><b>Priority 2 2023/24</b></p>
<p><b>Compliance with Legislation and Reputation Management</b> <i>(potential for some overlap with the review identified above concerning Internal Controls – Single Point of Failure)</i></p> <p><b>Risk: Health and safety breach causing actual or potential impact on employees or the organisation.</b></p> <p><b>Risk: Selection of regional projects and perceived success in delivery undermines reputation and, ultimately, role and sustainability of LEP.</b></p> <p><b>Risk: Data breach including commercially-sensitive personal data and staff confidential information</b></p> <p><b>Risk: Loss of reputation through negative publicity</b></p> <p>To consider whether the LEP has identified the critical legislation with which it must comply and to determine what assurance is in place to ensure compliance. The review could be expanded to consider the most critical risks which if materialised could severely undermine the reputation and consider what controls are in place to prevent the likelihood of these materialising. Examples of areas that may be considered might include:</p> <ul style="list-style-type: none"> <li>• Health and Safety;</li> <li>• GDPR</li> </ul>	<p><b>Priority 2 2023/24</b></p>



Objective of the review (Strategic risk)	Proposed timing
<ul style="list-style-type: none"> <li>• Anti-fraud and bribery;</li> <li>• Data Protection</li> </ul>	
<p><b>Financial Controls</b></p> <p><b>Risk: Breakdown of relationship with Accountable Body resulting in service levels not meeting requirements</b></p> <p>Most of the transactional financial controls are conducted on behalf of the LEP by the accountable body. From the LEP’s perspective a short review to determine whether it is receiving value for money / the services being paid for including suitability of service provision and required information on a timely basis. It would also be useful to determine if Coast to Capital is receiving the information expected on a regular basis, which should include some indication of level of service.</p>	<p><b>Priority 2</b> <b>2023/24</b></p>
<p><b>n.b – as part of the service provision it would be useful to understand what independent assurance could be provided to the LEP by the auditors of the Accountable body.</b></p>	
<p><b>Risk Management</b> (although included as a 3<sup>rd</sup> year audit – some earlier internal assurance could be achieved through reviews and consideration, including individual deep-dive reviews)</p> <p>There is a Company Risk Register in place which is updated and split out across key areas of the business. It would be useful to review the risk management process from two different perspectives – top down and bottom up in the Organisation. Does the Board focus on the strategic risks to the achievement of the objectives, are these suitably documented and is it clear where responsibility and accountability sit and how assurance on their management is overseen? Conversely are there processes within the LEP to update the risk register, to identify new risks and to demonstrate active management of those risks on the Register.</p>	<p><b>Priority 3</b> <b>2024/25</b></p>
<p><b>Business Continuity</b> (whilst an important area – key elements could potentially be reviewed earlier through either the review of Single Point of Failure or the Compliance with Legislation reviews)</p> <p><b>Risk: Coast to Capital is no longer able to achieve its business critical operations</b></p> <p>Whilst the recent Levelling up white paper provides some assurance on the sustainability of the LEP, there remain threats due to both external political factors, as well as internal factors, such as critical IT failure. The review would focus on the actions taken to reduce the impact of a critical incident should it arise and to reduce the likelihood of a single issue arising. Focus may include elements of IT, Disaster Recovery, failure of key stakeholders and emergency planning.</p>	<p><b>Priority 3</b> <b>2024/25</b></p>

Objective of the review (Strategic risk)	Proposed timing
<p><b>Investment</b></p> <p><i>Risk: Grant recipients do not meet terms of funding agreements leading to the funding withdrawal protocol being invoked</i></p> <p>Number of risks – could be covered by deep dive</p> <p>Review may focus on investment decisions undertaken and how delivery of agreed outputs against the terms are determined and followed up where issues are identified. Potential to deep dive specific elements of the investment programme to follow through as to whether agreed outcomes are being achieved and where not the case the actions that the LEP are taking.</p>	<p>Priority 3</p> <p>2024/25</p>
<p><b>Regional Projects</b></p> <p>Number of risks – could be covered by deep dive. Some risks covered in abovementioned reviews.</p>	<p>N/A</p>
<p><b>Skills &amp; Innovation</b></p> <p>Number of risks – could be covered by deep dive – also see section on Projects &amp; Income above</p>	<p>N/A</p>
<p><b>Business Engagement</b></p> <p>Number of risks – could be covered by deep dive</p>	<p>N/A</p>
<p><b>Workforce</b> – <i>Some follow up of previous reports and could link in with Financial Management or Financial Controls work above</i></p> <p>Despite the Workforce only numbering 30, there are a number of Workforce risks, ranging from failure to recruit the right people at the right time, failure to retain good people, failure to recognise challenges to wellbeing exacerbated by the effects of the pandemic, failure to provide adequate growth and development opportunities. There has been previous internal audit coverage in audits of Recruitment and Working Practices and no major issues outstanding.</p>	<p>N/A</p>
<p><b>Procurement</b> – <i>could link in with Financial Controls work above</i></p> <p>A recent audit has been undertaken into Procurement, which should be followed up to ensure that any issues identified are resolved.</p>	<p>Follow up</p>
<p><b>Information Technology &amp; Systems</b> – <i>could link to compliance with legislation and reputational management review for areas such as Cyber and Data Security risks. Some consideration also within Projects reviews above.</i></p> <p>Follow up of the GDPR audit to ensure that actions identified have been suitably resolved.</p>	<p>Follow up</p>
<p><b>Payroll</b> – Payroll is provided by an outsourced provider – a review is being undertaken in 2022 to cover key controls by Kreston Reeves. Proposed follow up of any key issues arising – any critical elements could be covered in Financial Controls review identified above.</p>	<p>Follow up</p>

<b>Follow up</b> Annual review to follow up on all actions.	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	Annual plus more regular Management update
<b>Management</b>	This will include: Annual planning; Preparation for, and attendance at, audit committee; Regular liaison and progress updates; Liaison with external audit and other assurance providers.	-
<b>Total</b>		
<b>Contingency</b>	Not allocated presently – to be used as agreed with Management should short-term risk require assurance	
<b>Total (at budget)</b>		

A detailed planning process will be completed for each review, and the final scope will be documented in an Assignment Planning Sheet. This will be issued to the key stakeholders for each review.

## 2.1 Working with other assurance providers and seeking other assurances

The Audit & Risk Committee is reminded that internal audit is only one source of assurance. As detailed above we would advocate considering whether any additional assurance could be provided by auditors of those organisations to which you have outsourced elements of your business – this may give additional assurance for instance over controls at the Payroll provider or at the Accountable body who provide financial services for the LEP. Whilst independent assurance is considered to provide the strongest level of assurance and often referred to as part of the third line of defence, we would propose you consider undertaking some deep dives of risks via the Audit & Risk Committee and potentially via the Finance & Resources Committee. We can provide material to support you with a proposed methodology for undertaking risk deep dives.

# FOR FURTHER INFORMATION CONTACT

**Nick Atkinson, Partner – RSM UK Risk Assurance Services LLP**

Email: [nick.atkinson@rsmuk.com](mailto:nick.atkinson@rsmuk.com)

Telephone: 07730 300 307

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