



Audit and Risk Management Committee

Date:	Tuesday, 22 July 2014
Time:	5.00 pm
Venue:	Committee Room 2 - Wallasey Town Hall

Contact Officer: Mark Delap
Tel: 0151 691 8500
e-mail: markdelap@wirral.gov.uk
Website: <http://www.wirral.gov.uk>

AGENDA

1. MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members are asked to consider whether they have any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state the nature of the interest.

2. MINUTES (Pages 1 - 10)

To approve the accuracy of the minutes of the meeting held on 23 June 2014

3. BUSINESS INVESTMENT GRANT (BIG) AND INTENSIVE START UP SCHEME (ISUS) INVESTIGATIONS (Pages 11 - 88)

Appendix 4: Grant Thornton ISUS Report - Executive Summary - To follow

Appendix 5: Full Grant Thornton ISUS Report (Including ISUS Report Appendices 1-2 and Documents 1-17) – To follow

Appendix 9: Full Grant Thornton BIG Report (including all documents) – To follow

4. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 1)

5. EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC

The public may be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information.

RECOMMENDATION – That in accordance with section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business, on the grounds that they involve the likely disclosure of exempt information as defined by the relevant paragraphs of Part 1 of Schedule 12A (as amended) to that Act. The public interest test has been applied and favours exclusion.

6. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR (PART 2)

AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 23 June 2014

<u>Present:</u>	Councillor	J Crabtree (Chair)	
	Councillors	RL Abbey	D Elderton
		J Hale	M Patrick
		S Kelly	A Sykes
		P Doughty	J Walsh
<u>Cabinet Members:</u>	Councillors	AER Jones and AR McLachlan	

67 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked to consider whether they had any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state what they were.

No such declarations were made.

68 MINUTES

For the Committee to approve their accuracy, the Head of Legal and Member Services presented the minutes of the meeting held on 18 March 2014.

The Liberal Democrat Spokesperson sought clarification in relation to a number of matters contained within the minutes in relation to the write-off of Highways Maintenance Debts (minute 58) and the appointment of independent members (minute 60). Further to minute 65, he also questioned the absence of an agenda item of a quarterly update upon the use of covert surveillance in accordance with the Regulation of Investigatory Powers Act 2000 (RIPA). In response to the issue of write-off of Highway Maintenance Debts, the Chief Internal Auditor indicated that follow up audit work was scheduled for mid July and feedback would be provided to Members in due course. The Head of Legal and Member Services confirmed that guidance was still awaited in relation to the appointment of independent members. He commented also that the quarterly report on the use of RIPA would be presented to the next meeting of the Committee and proposed that an interim update would be provided to Members.

Resolved – That the minutes of the meeting held on 18 March 2014, be approved.

69 ANNUAL GOVERNANCE STATEMENT 2013/2014

In order to meet the statutory requirement set out in the Accounts and Audit (England) Regulations 2011, Regulation 4(3), the Strategic Director – Transformation and Resources, on behalf of the Chief Executive, presented for the Committees consideration and debate a draft Annual Governance

Statement (AGS) and indicated that a final version would be presented to the 17 September 2014 meeting. He commented that it was necessary for the Council to have approved and adopted a Code of Corporate Governance that complied with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government and to report publicly through the AGS the extent to which the governance processes outlined in the Code were operating effectively in practice.

He outlined the approach taken in the production of the AGS and indicated that the Internal Audit team had been responsible for undertaking the relevant assurance work. He set out the sources of evidence and documentation that had been provided by Internal Audit and commented that the review of the AGS and the accompanying assurances were important roles for the Committee.

The Conservative Group Spokesperson expressed concern that an officer group, namely the Chief Executive's Strategy Group (CESG), retained ownership of the AGS and he questioned a number of comments set out within the document. In particular, he expressed his view that the Council was not 'stable, well-led, open and far more inclusive'. He believed that there was little opportunity for pre-scrutiny to be undertaken and questioned also the legitimacy of the Council's decision to join the Combined Authority, on the basis that reference to it had been to the Liverpool City Region Combined Authority, rather than to its full and proper title. He suggested that dedicated planning sessions to develop the future direction of the Council should be open to all Members of the Council. Further questions with regard to the decision making process of the Standards and Constitutional Oversight Committee were answered by the Head of Legal and Member Services. Members also expressed concern that the controlling political group should have taken the Chairs of each of the Policy and Performance Committees.

The Liberal Democrat Spokesperson commented that although there had been some improvement, as indicated in the AGS, more work was required on how best to hold the Cabinet to account. He accepted the outcome of the recent local government elections, yet believed that the public wanted assurance that there would be effective checks and balances in place. He highlighted the reputational risk to the Council of Scrutiny Chairs, being members of the ruling group, expressing a view in relation to an executive decision. He referred also to Principle 6 of the AGS and commented that the Council had failed to engage with local people and other stakeholders upon a number of issues, in particular, street lighting being turned off against the advice of the Police and funding for school crossing patrols being sought from schools without any prior consultation.

Members also expressed a view that the Labour Group may have felt compelled to take the Chairs of Scrutiny Committees because of a lack of engagement by opposition groups, particularly when afforded the opportunity to participate training events. Members commented that there were clear signs of improvement and hoped that this Committee would continue to benefit from its Members working together on a non-political basis and to continue to improve the Council's engagement with local people and stakeholders.

The Strategic Director thanked Members for their comments, which were a good example of the Committee's stewardship and would inform the final draft of the AGS. He emphasised the significant progress that had been made by the organisation, which had been echoed by the LGA. The CESG considered regular performance monitoring reports, which were also presented to each Policy and Performance Committee, who also had opportunity to undertake pre-scrutiny in line with their work programme. He also proposed to explore how best to improve the way that information from the Council and its partners was presented to the public.

On a motion by Councillor Abbey, seconded by Councillor Doughty, it was –

Resolved – That subject to the comments made by Members being noted, the final Annual Governance Statement be presented to the 17 September 2014 meeting of the Committee.

70 CHIEF INTERNAL AUDITORS ANNUAL REPORT 2013/2014

The Chief Internal Auditor presented his Annual Report and Opinion on the System of Internal Control 2013/2014. The Accounts and Audit Regulations required that a local authority "shall maintain an adequate and effective system of internal audit" and, in order to meet the statutory requirements the Internal Audit Section has conducted audits to review the operation of the internal audit control systems. The work had been conducted in accordance with professional standards set by the Audit Practices Board, CIPFA and Institute of Internal Auditors.

He commented that significant attention had also been paid to risks in Performance Management, Anti-Fraud and Corruption, Corporate Governance, Risk Management, ICT Systems and Service Delivery. The Internal Audit Plan for 2013/2014 had been approved by the Committee on 19 March 2013 (minute 56 refers) and had been compiled on a risk assessment basis that included consideration of the sensitivity and complexity of all risks identified.

He was pleased to report that significant steps had been taken during the year to develop and implement more effective control and governance arrangements and embed an organisational infrastructure to serve the organisation more effectively and prevent a recurrence of previously reported control and governance issues. This had been acknowledged by the LGA Improvement Board and the Chief Internal Auditor reported that his overall opinion was that *'Assurance can be given that there is a substantially sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently'*. In response to comments from Members as to how Wirral now compared to its peer authorities, he suggested that as a general guide, Wirral would likely sit within a middle 60%. However, the audit opinion represented a significant and marked improvement from last year.

Resolved –

- (1) That the report be noted.**
- (2) That the thanks of the Committee be accorded to the Internal Audit team for the exceptional quality of the work undertaken and for the clarity and conciseness of the reports presented to the Committee.**

**71 AUDIT AND RISK MANAGEMENT COMMITTEE
ANNUAL REPORT 2013/2014**

The Chief Internal Auditor reported that to comply with best professional practice, the Audit and Risk Management Committee was required to complete an annual report to Cabinet on the work it had undertaken. He presented the Annual Report 2013/2014, which had been prepared by the Chair in consultation with Internal Audit and he highlighted the key information contained within it.

Resolved – That the draft Annual Report be approved and referred to the Cabinet.

72 ANNUAL SELF ASSESSMENT 2013/2014

The Chief Internal Auditor reported that to comply with best professional practice the Audit and Risk Management Committee was required to complete an annual evaluation of its role and effectiveness as part of the systems of internal audit. The CIPFA publication 'A Toolkit for Local Authority Audit Committees' recommended the use of a self assessment checklist to achieve the task, and he presented the checklist which had been completed by the Chair, together with a draft Action Plan that had been developed following the exercise, which identified recommendations to improve the existing arrangements and address any risks.

He commented specifically that an action arising from the exercise involved updating of the Committee's terms of reference, insofar as they related to the frequency of meetings, to ensure compliance with CIPFA best practice guidance.

Resolved –

- (1) That the self assessment checklist and draft action plan be approved.**
- (2) That subject to the approval of the Council, the terms of reference for the Audit and Risk Management Committee be revised to incorporate the following wording, to comply with CIPFA best practice guidance –**

The Audit and Risk Management Committee should meet five times in each municipal year unless otherwise determined by Council in the calendar of meetings and at such times as determined by the Chair of the Audit and Risk Management Committee.

73 INTERNAL AUDIT UPDATE

The update report of the Chief Internal Auditor identified and evaluated the performance of the Internal Audit Section and included details of issues arising from actual work undertaken during the period 1 March to 31 May 2014.

He reported that one item of note was brought to Members' attention, in relation to Golf Course Income and commented that it had been a very positive step by the Strategic Director for Regeneration and Environment and the Head of Sport and Recreation, who had requested an audit review of income maximisation from the operation of golf courses, including an assessment of the terms and conditions of the individuals providing the service. He outlined the audit work undertaken and commented that areas for improvement and actions to strengthen the control environment were discussed and agreed with managers. Immediate action had been taken regarding five of the nine recommendations made, with significant work ongoing in the other areas. A follow up audit would be undertaken in August 2014 and an update would be provided to Members in due course.

He presented also details of those audits where recommended actions had not yet been implemented. The period covered was for the 2014/2015 year and he had also included for completeness, outstanding recommendations made in the fourth quarter of 2013/2014. He indicated that where items were addressed, those entries would be removed from the report on a rolling basis and he advised that all of the outstanding actions identified were RAG rated as 'amber', which indicated that progress was being made to address identified issues.

He set out also performance of Internal Audit against a number of performance indicators in key areas and commented that of the 18 actions identified to deliver the Internal Audit Improvement Plan, 16 had been fully implemented with good progress being made in respect of the remaining actions, within agreed timescales.

Members noted that the issue of golf course income had been raised by the Committee over several years and it was suggested that a more in depth analysis may be required in relation to maximising income and addressing the issue of people playing without paying. The Chief Internal Auditor indicated that an update would be presented to the September meeting of the Committee and he hoped to be able to include feedback from enquiries made of other local authorities as to how best to address the issue. In response to further comments made in relation to Asset Management, he indicated that a full review of the Asset Management System was to be undertaken in the second half of 2014/2015, which would be reported upon in due course.

Resolved –

- (1) That the report be noted**
- (2) That the item of note in relation to golf course income be referred to the Families and Wellbeing Policy and Performance Committee.**

74 **INTERNAL AUDIT COUNTER FRAUD UPDATE**

The Chief Internal Auditor presented an update upon the activities of the Counter Fraud Team within Internal Audit, during 2013/2014 and to date, although his report did not include the extensive, specialist activities of the Benefits Fraud Team, which were reported separately. He outlined the remit of the Counter Fraud Team and indicated that, during the monitoring period, the development and recognition of the team had continued with significant progress being made, resulting in 16 referrals made to it – an increase of some 30% of the cases referred from the previous year. He commented that key activities of the team were to –

- Prepare relevant best practice policies and procedures;
- Change the culture of the organisation by raising awareness amongst the workforce to fraud and corruption and through targeted training;
- Proactively manage the risk of fraud to the Council through targeted audits in high risk areas;
- Provide both a proactive and a reactive response to tackling fraud across the authority.

Members highlighted the need to fully support the Fraud Awareness Week that was planned during 2014/2015 at which officers and public would be made aware of the impact of fraud, not only on the Council but on the wider community, and also to encourage the use of reporting mechanisms. Members noted also that, whilst much had been made in the media about the level of benefit fraud, the Audit Commission report 'Protecting the Public Purse 2013' stated that this only represented 15% of the total fraud and abuse targeted at local authorities. Consequently, the remaining 85% of fraud suffered by the local authority was not benefit related.

In response to questions from Members, the Chief Internal Auditor proposed to provide a breakdown of 'fraud' and 'error' in his next update report. He also proposed to circulate to Members details of the activities to be undertaken during Fraud Awareness Week.

Resolved –

- (1) That the report be noted and the work of the Counter Fraud Team continue to be supported.**
- (2) That details of Fraud Awareness Week be presented to the Cabinet with a request that the activities planned be fully supported.**

75 **STATEMENT OF ACCOUNTS 2013/2014**

The Director of Resources reported upon the process for completion of the Statement of Accounts 2013/2014 and advised that the Council's Constitution allocated responsibility for the approval of the Statement of Accounts to the Audit and Risk Management Committee. The Statement for 2013/2014 was required to be issued by 30 June 2014 and would be subject to audit by the appointed auditors, Grant Thornton, who would present their findings to the 17 September 2014 meeting of the Committee. The Accounts would be made available for public inspection from 21 July to 15 August 2014 and, from 18 August until the conclusion of the audit process, any local government elector for the area of the Council may ask the Auditor questions about the Accounts and/or object to the Council's Accounts.

The Director advised Members that a briefing session would take place on the Accounts and whilst, specifically for Members of the Audit and Risk Management Committee, the session would be open to all Members of the Council. Following the Committee's consideration, on 17 September 2014, of Grant Thornton's Audit Findings Report, approval of any amendments to the Statement of Accounts, agreement of the Letter of Representation and the approval of the Statement of Accounts for 2013/2014, Grant Thornton would, before the statutory deadline of 30 September 2014, issue the Audit Opinion and state whether the Accounts were a true and fair view of the financial position of the Council at 31 March 2014.

Resolved –

- (1) That the process for the completion of the Statement of Accounts 2013/2014 be agreed.**
- (2) That the briefing session for Members on 'Understanding the Council's Statement of Accounts' be held on 10 September 2014 and that all Members of the Council be invited to attend.**

76 **MANAGEMENT OF INSURANCE AND CORPORATE RISK**

The Director of Resources reported that Risk and Insurance Management comprised two significant areas of activity, one being the provision of advice and support to Members and officers in developing the corporate risk management framework and processes; the other being risk financing, which incorporated insurance procurement management of the Council's Insurance Fund and claims management. The Director set out the key actions to be taken during 2014/2015 and highlighted key decisions that would need to be made. Progress made since March 2014 in relation to key actions planned for 2014/2015 was also included.

Resolved – That the report be noted.

77 **INSURANCE FUND ANNUAL REPORT 2013/2014**

The Director of Resources provided a detailed review of the Risk and Insurance activity during 2013/2014 and the plans for 2014/2015 and beyond.

It detailed the underwriting arrangements and recent loss histories for the principal areas of insured risk and described the impact of measures taken to improve their management. The provisions and reserves within the Insurance Fund at the end of 2013/2014 were also confirmed.

The Director referred to her report on the Liability Claims Funding Study presented to this Committee on 28 January 2014 (minute 49 refers), which estimated that there could be a surplus in the Insurance Fund as at 31 March 2014. The actual year end position of the Fund was a surplus of £83,000 with the following largely responsible for the change –

- (i) £178,000 to increase the amount invested in the Liability Section of the Insurance Fund to the level proposed in the actuarial report;
- (ii) £250,000 to increase the provision for uninsured liabilities for environmental impairment. This facilitated the release of £2.5m from the Community Fund back to the Council and to Magenta Living;
- (iii) the profile of liability claims payments in the final quarter of 2013/2014 were significantly higher than the first three quarters. This meant that whole year costs for 2013/2014 were ultimately £263,000 greater than the forecast at December 2013.

The Director requested that the Committee endorse the actions outlined in (i) and (ii) above.

She commented also that the Council continued to play a national role in relation to insurance issues and the ongoing reforms to civil litigation funding and costs. Furthermore, Wirral had established a reputation within the market as a leading authority on liability claims matters and an officer within the Risk and Insurance Team was a Director of Alarm, the Public Risk Management Association. Within this role, he had established a special interest group in respect of insurance and liability claim matters. This provided a source of best practice, sought to improve standards and formally represented the interests of the public sector in relation to insurance matters, both within the industry and with Central Government. The officer was regularly published within the industry journal and was a speaker at national claims events, his expenses in relation to this work being met by Alarm.

Resolved –

- (1) That the report be noted.**
- (2) That the actions set out in sections 2.30 (i) and (ii) of the report now submitted, be agreed.**
- (3) That the Insurance Fund Budget 2015/2016 be prepared for presentation to the November 2014 meeting of the Committee.**
- (4) That the congratulations of the Committee be accorded to Simon Hutchinson for the role he continues to play, promoting Wirral at a national level and increasing the profile of public sector liability claims matters.**

The Chief Executive reported that under the terms of the Council's Constitution, one of the functions of the Audit and Risk Management Committee was to provide independent assurance of the effectiveness of the Council's risk management framework. The Corporate Risk Register was a key output from the risk management framework and to support the Committee, a report was now presented on a regular basis, detailing the key risks facing the authority and how they were being managed. The Corporate Risk Register summarised those areas of uncertainty which had the greatest potential to prevent or frustrate delivery of the Corporate Plan and confirmed how the authority was seeking to tackle them. At a strategic level the risks helped to inform future priorities and interventions and the actions required to mitigate the risks also influenced the content of Directorate Service Plans and the allocation of resources. In that way, they were a key component of the corporate planning process and so success in managing those risks was a key factor in overall corporate performance.

Governance arrangements for the register required that it be formally reviewed each quarter. The review was undertaken by the Chief Executive's Strategy Group (CESG), informed by a report from the Risk and Insurance Officer, which summarised potential new risks for consideration and significant movements in Directorate and Programme risk registers.

The Liberal Democrat Spokesperson referred to the controls for the corporate safeguarding risk (CU1) (minute 61 (18 March 2014) refers) not having reflected actions taken to address adult safeguarding. He noted that the issue had now been addressed but questioned whether or not it may be more appropriate to have separate risk categories, one for children and one for vulnerable adults. In response, the Strategic Director – Transformation and Resources commented that he would be pleased to take this comment back for further consideration by the CESG.

In response to a further question from a Member regarding the need to replace the Council's IT hardware and software, the Head of Financial Services indicated that much of the equipment had been delivered to IT Services and the roll-out was due to commence imminently and to be completed by the end of the calendar year.

Resolved –

- (1) That the report be noted.**
- (2) That further reports on the Corporate Risk Register be presented to future meetings of the Committee.**

The Director – Assurance (Grant Thornton UK LLP) presented the Audit Plan for Wirral Council for the year ended 31 March 2014, which outlined the audit strategy and plan to deliver the audit. He outlined the Auditor's understanding of the challenges and opportunities the Council was facing and referred to the

impact of key developments and other requirements that were relevant to the Council and the audit. In addition to two presumed significant risks which were applicable to all audits under International Standards on Auditing (ISAs) he set out other risks of material misstatement that had been identified and he highlighted work that had been completed during the interim visit and further work that was planned.

The Code of Audit Practice and associated guidance also required a conclusion to be issued on whether the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of its resources. This was known as the Value for Money (VfM) conclusion, which would be based upon criteria issued by the Audit Commission. Work would be undertaken to address risks that had been identified by a risk assessment and he indicated that the results of the VfM audit work and key messages arising would be reported in the Audit Findings report and in the Annual Audit Letter. He reported also the details of fees charged and set out the communication plan, to ensure that any adverse or unexpected findings affecting the audit would be communicated on a timely basis to the Council.

Resolved – That the Audit Plan be noted.

80 **CONTRACT EXTENSION FOR THE SUPPLY OF THE WORKING WIRRAL PROGRAMME**

The Strategic Director – Transformation and Resources presented the report of the Strategic Director for Regeneration and Environment, which notified the Committee of the delegated decision to extend the contract for the supply of the Working Wirral programme for a period of 10 months from 1 April 2014 to 30 January 2015, at a cost of £700,000. He provided an overview of the Working Wirral programme (operating name of ReachOut Partnership), which was delivered by a consortium of voluntary sector partners led by Involve Northwest and supported the Council to address worklessness issues in Wirral. He provided a review of performance for the programme for the period 1 September 2013 to 31 March 2014, which demonstrated that the supplier had exceeded contracted outcomes, and he set out headline targets for the duration of the new contract.

Resolved – That the report be noted.

WIRRAL COUNCIL

AUDIT & RISK MANAGEMENT COMMITTEE

DATE 22 JULY 2014

SUBJECT	BUSINESS INVESTMENT GRANT (BIG) AND INTENSIVE START-UP SUPPORT (ISUS) INVESTIGATIONS
WARD/S AFFECTED	ALL
REPORT OF	CHIEF EXECUTIVE
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1. The purpose of this report is to share the outcomes from Grant Thornton's reports into the Business Investment Grant (BIG) and Intensive Start-Up Support (ISUS) schemes with the Audit and Risk Management Committee.
- 1.2. This report contains the initial draft reports produced by the former Chief Internal Auditor. The initial draft reports are attached at Appendix 1 and 2.
- 1.3. A review, requested by the Chief Executive, of the initial draft reports undertaken by the then Interim Director of Finance is attached at Appendix 3. This review recommended that an external firm of accountants or solicitors specialising in investigations for local authorities reviewed the evidence, allegations and investigations that had taken place in relation to both BIG and ISUS.
- 1.4. Following a tender process Grant Thornton were appointed to deliver this work. The ISUS reports, appendices and documents to accompany the reports are attached at Appendix 5, with the Executive Summary at Appendix 4. The BIG report is attached at Appendix 9, with the accompanying Executive Summary attached at Appendix 10.
- 1.5. Grant Thornton recommended that the Council consider referring the findings of its report into ISUS to the Police. As the provider was the same for the BIG scheme, the Council made the decision to also refer the BIG report to the Police for their consideration, in the interests of openness and transparency. The Police, after reviewing both reports, subsequently wrote to the Council advising that no action was to be taken following receipt of Grant Thornton's draft reports. See Appendix 6 for the Police letter.
- 1.6. Given that ISUS utilised North West Development Agency (NWDA) Funding, the ISUS report was initially referred by the Council to the Department for Business, Innovation and Skills ('BIS') and thereafter to the Department for Communities and Local Government ('DCLG') for consideration following the abolition of the NWDA.

- 1.7. To assist the Committee, a further two summary reports have been produced (see Appendix 7 and 8) by the Council, each of which provides a summary of events and background from the period when the matters were first raised with the Council to the point at which Grant Thornton provided its finalised reports.

2.0. BACKGROUND AND KEY ISSUES

- 2.1. In June 2011 a former employee of Enterprise Solutions Ltd raised concerns about the BIG and ISUS grant programmes with the Council's Director of Regeneration, who immediately notified the Council's Monitoring Officer when it became evident that the complaint was made under PIDA.
- 2.2. The complainant was subsequently joined by a second former employee of the same company in raising these concerns.
- 2.3. These concerns were the subject of an investigation by the Council's Chief Internal Auditor as referenced at paragraph 1.2, before the decision was taken to appoint an external firm to review the evidence, allegations and investigations that had taken place.
- 2.4. In March 2013 Grant Thornton delivered two draft reports to the Council, in relation to BIG and ISUS respectively.
- 2.5. Grant Thornton reported that no concerns were identified regarding the integrity or honesty of any Wirral Council employees.
- 2.6. Acting on recommendations made by Grant Thornton in relation to ISUS, the Council referred the two draft reports to the Police. The ISUS and BIG reports were also referred to BIS.
- 2.7. Merseyside Police wrote to the Council on 23rd April 2014 advising that no action was to be taken following receipt of Grant Thornton's draft reports.
- 2.8. The Council reported the Police response to the external investigator. The finalised Grant Thornton reports were received by Wirral Council in May 2014.
- 2.9. The Council is still awaiting a final response from BIS.

3.0. CONCLUSION

- 3.1. The recommendations made by Grant Thornton in relation to monitoring and best practice have been noted and actioned where appropriate.
- 3.2. The BIG and ISUS schemes have been mostly successful funding programmes and have both had a positive effect on Wirral's economy and business community.

- 3.3. Merseyside Police conducted their own investigation and notified Wirral Council that no action was to be taken, commenting on the Council's openness and assistance during the enquiry.

4.0. RELEVANT RISKS

- 4.1. The Council, when it became aware of the allegations, initiated steps to ensure they were investigated. Matters have been kept under review and when appropriate additional steps taken to ensure the allegations were investigated.
- 4.2. The Council has endeavoured to investigate the allegations that have been made and has referred them to the Police and BIS.

5.0. OTHER OPTIONS CONSIDERED

- 5.1. No other options considered.

6.0. CONSULTATION

- 6.1. Requisite consultation has taken place with Grant Thornton with regards to disclosure of the reports.

7.0. IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1. There are none arising from this report.

8.0. RESOURCE IMPLICATIONS

- 8.1. Inevitably there are resource implications arising in undertaking investigations of this kind. However, such issues whilst relevant are not overriding factors when dealing with allegations and issues of the kind stated in this report and the appendices.

9.0. LEGAL IMPLICATIONS

- 9.1. The Council has an obligation to consider the allegations and issues that have been raised. The Council must consider the findings and conclusions reached.
- 9.2. The Council must reach its decision on further steps/actions based on the evidence available.

10.0. EQUALITIES IMPLICATIONS

- 10.1. Has the potential impact of your proposal(s) been reviewed with regard to equality?

No because there is no relevance to equality.

11.0. CARBON REDUCTION IMPLICATIONS

11.1. There are none arising from this report.

12.0. PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1. There are none arising from this report.

13.0. RECOMMENDATION

13.1. That the Committee:

- a. notes the report;
- b. accepts the findings reported by Grant Thornton and Merseyside Police into the allegations made in respect of BIG and ISUS grant programmes; and
- c. Subject to the response of the Department for Communities and Local Government ('DCLG'), the Chief Executive shall undertake all necessary steps to address any points/issues raised by DCLG and report back to this Committee.

14.0. REASON FOR RECOMMENDATION

14.1. To provide Members of the Committee with assurance that the Council has investigated the allegations made by the complainants and taken appropriate action in response to the findings identified by Grant Thornton.

REPORT AUTHOR: Graham Burgess
Chief Executive
telephone: 0151 691 8589
email: grahamburgess@wirral.gov.uk

APPENDICES

Appendix 1: Internal Audit Draft BIG Report
Appendix 2: Internal Audit Draft ISUS Report
Appendix 3: Review of Internal Audit Reports
Appendix 4: Grant Thornton ISUS Report - Executive Summary
Appendix 5: Full Grant Thornton ISUS Report (Including ISUS Report Appendices 1-2 and Documents 1-17)
Appendix 6: Letter from Merseyside Police
Appendix 7: BIG Summary Report
Appendix 8: ISUS Summary Report
Appendix 9: Full Grant Thornton BIG Report (including all documents)

REFERENCE MATERIAL

N/A

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management Committee	

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COUNCIL OFFICERS

ALLEGATIONS RELATED TO BUSINESS INVESTMENT GRANT
(BIG) SCHEME

INTRODUCTION

Allegations were made under the Council's Whistleblowing policy by two persons employed by a company which had a contract with the Council. This report explains the background to the BIG scheme (1.0 to 1.8), states the allegations and examines the details of the evidence presented to support them (2.0 to 2.1.8) and presents the conclusions and findings of the enquiry (3.0).

1.0 BACKGROUND

1.1 On 19th March 2009, Cabinet, Item 394, approved a programme to support businesses with 250 employees or less. This programme utilised the £50,000 identified at Cabinet on 23rd February 2009 to support local businesses during the economic downturn, and £400,000 per year of Working Wirral funds. The fund was available for a wide range of support, including access to consultancy and BIG support grants. It was intended that the availability of such financial support would encourage banks and other lending institutions to also invest in these businesses.

The Cabinet decision of 23rd February 2009 initially targeted use of the assistance at businesses creating new employment opportunities. However, as a result of the economic climate, it was decided by Cabinet on 19th March 2009, that allocation decisions would be made as flexibly as possible, to meet the funding needs of the business. This meant supporting sustainability of business, in addition to new job growth. The business had to be sound, solvent and its plans well-considered and prepared. The funding provided was to recognise a range of factors, including the need for funding to enable a project to proceed.

On 20th October 2009, an internal audit of the process was conducted and the opinion of the system was good with the system of control performing well. The follow up audit on 15th March 2010 confirmed the implementation of the two recommendations and considered the system of control as excellent.

1.2 Business Eligibility Criteria

Invest Wirral Business Team in the then Department of Corporate Services, considered investment plans from businesses of all sizes, including inward investing and indigenous businesses.

The business had to:

- a. be financially and organisationally sound and trading in legitimate activity.

- b. be solvent and its directors also had to be personally solvent.
- c. submit a project that would not be targeted primarily to a local market or to the detriment of local businesses.
- d. comply with rules relating to EU State Aid.

1.3 Project Eligibility Criteria

Projects eligible were those that would transform the growth of the business in Wirral. This was defined by some examples that would have been suitable which were:

- a. a business that chose to locate in Wirral for the first time thus adding to the national and international business base in the Council area.
- b. an established business in Wirral with a project to uplift the productivity and/or employment of their business through investing in their people, equipment and facilities.
- c. a new business with fast growth potential that required funds to achieve growth.

Projects that could not be supported were:

- a. routine, replacement or renewal investment in the business
- b. those that did not require funding to proceed.
- c. those that had already commenced or that were contractually committed.
- d. those that would be aimed at a local market or would be a detriment to local services

Specifically Eligible Expenditure was defined as fixed and project related investment including:-

- a. plant, equipment etc excluding vehicles
- b. building acquisition, improvement, adaptation or extension
- c. investment in new technology, systems, software, processes
- d. initial running or one-off expenditure
- e. investment in people

1.4 Level of Funding

The funding available ranged from £4,000 up to a maximum of £20,000 per project. This fund was entirely discretionary and the BIG grant awarded based upon the assessed need for funding and the benefit the project would bring to the business and to Wirral in both the short and long term.

1.5 Application Process

An application started by contact with the Invest Wirral Business Team. A Project Manager was allocated to work with the business to establish the details of the project by reviewing a synopsis of the project presented by the business, advise on eligibility and, subject to eligibility, prepare a case for consideration by the Council's Assessment Panel. If a project synopsis showed the project was obviously not viable or did not comply with the

conditions of award of a BIG grant, the business was advised how to modify the application and told the current application would not be processed. Eligible businesses were referred in accordance with a contracted agreement, to Enterprise Solutions (NW) Limited for independent assistance in finalising their application. Enterprise Solutions (NW) Limited assigned one of their contracted Business Advisors to assist each business. The financial information subsequently submitted was independently assessed by a Chief Accountant of the Council's Finance Department, who provided a written report and a recommendation to the Invest Wirral Project Manager for inclusion in a report with recommendations to the Council's Cabinet Committee.

At the time the scheme was established, the system ensured a separation of duties between 'Invest Wirral,' who dealt with the business making applications and the assessment of the application.

Staff in the Department of Regeneration, which managed the Working Neighbourhood funds, assessed applications and prepared a report for the Assessment Panel after consultation with the [REDACTED] of The Finance Department. The process continued until the Department of Regeneration ceased to exist in 2010 when the same staff continued but were then in the Department of Corporate Services.

1.6 Assessment process

An assessment panel was established, which included the Council's then Head of Strategic Development, a representative from the Federation of Small Business (FSB) and the Wirral Chamber of Commerce, [REDACTED] of Wirral Council Finance Department, a representative of Business Link and also a representative from a bank, on a rotation basis.

The Panel reviewed the reasonableness of each project and likelihood of the project being effective in achieving the results that were planned and stated in the application and then authorised grants under delegated authority. The Panel's recommendation was submitted to the Director of Corporate Services and the Cabinet Member for Regeneration for their approval.

1.7 Financial Assessment

The application included the business' annual accounts, management accounts reflecting current activity, a cash flow forecast for the period of the grant-funded project, and balance sheet and profit and loss forecasts. These documents were submitted to the [REDACTED] who prepared a written Financial Assessment related specifically to:

- a. the solvency of the business highlighting any risks or concerns so that the Panel would understand if the evidence indicated that the grant would be of no help and wasteful. Cash-rich, strong businesses were not considered suitable by the Council for this Business Support Grant. The applicants were those under financial stress and usually having some cash flow

insolvency though it was essential the Panel considered them to have been financially and organisationally sound, trading in legitimate activity, been solvent and their directors also had to be personally solvent.

- b. the evidence provided by the applicant that they were not able to fund their project other than through the grant. Evidence considered was the cash-flow forecast and overdraft limits.
- c. the business' need for the grant to fund the project.

The [REDACTED] examined the solvency of the business by determining its historic net assets or liabilities and cash inflows as indicated by the profits and losses made to establish the history of the business. The management accounts were used to consider the current position of the business. Independent checks with credit agencies and company records were carried out by the [REDACTED]

Queries on the details provided were referred by the Chief Accountant to the then Regeneration Department who contacted the applicant. This was done so the [REDACTED] maintained independence by having no direct contact with any of the applicants or their advisors.

A final written Financial Assessment was submitted to the Invest Wirral for a summary to be included in the Appraisal Statement submitted to the Panel for consideration.

At the Panel meeting, the [REDACTED] added anything that had not been covered in the Appraisal concerning the Financial Assessment. The Panel considered all evidence presented to assess the quality of the bid, the appropriateness of the project and whether it was a viable and eligible proposition.

1.8 Insolvency

The BIG criteria specified that the business and director had to be solvent to be eligible for a grant. Solvency was not defined in the Cabinet report so the [REDACTED] and Panel used their professional skill and experience in forming judgements on businesses' financial condition. Though insolvency is not a synonym for bankruptcy, which is a determination of insolvency made by a court of law with resulting legal orders intended to resolve the insolvency, the Panel made use of the definitions of insolvency as defined both in terms of cash flow and in terms of balance sheet in the UK Insolvency Act 1986, Section 123, which states in part: [1] 123. Definition of inability to pay debts:

- (1) A company is deemed unable to pay its debts -[...] if it is proved to the satisfaction of the court that the company is unable to pay its debts as they fall due. This is known as cash flow insolvency.
- (2) A company is also deemed unable to pay its debts if it is proved to the satisfaction of the court that the value of the company's assets

is less than the amount of its liabilities, taking into account its contingent and prospective liabilities. This is known as balance sheet insolvency.

It was understood that business insolvency was defined in two different ways:

- Cash flow insolvency: Unable to pay debts as they fall due.
- Balance sheet insolvency: Having negative net assets i.e. liabilities exceed assets.

The Council was not able to declare a business that applied for a BIG grant insolvent when its Directors had not sought to do so themselves. To do so would have been putting the business at risk and the Council may have been held liable for any subsequent business failure. The Financial Assessment of businesses for grant purposes was focussed on determining the risk of insolvency to which the business and its proposed project was liable.

The Panel as a whole reviewed the sensibility and likelihood of the project's ability to be realised, and have the effects that were planned, to create and preserve jobs in accordance with Council policy.

2.0 Allegations

Several related allegations concerning the BIG scheme were made by WB1 to Internal Audit, which were supported and developed by WB2, using the Council's Whistle-blowing Policy. There was no record of these being raised earlier to council staff including the then acting Director of Regeneration, Planning and Housing, KA. The allegations were as follows-

1. Large amounts of public money had been lost as a result of BIG grants having been awarded to businesses that were not suitable to receive such grants. It was contended that a third party would expect that the grant would be given to a business which was profitable and that being "balance-sheet" insolvent made businesses immediately ineligible as business solvency had been specified by the Council as a condition for a grant. WB2 contended that the Assessment Panel that recommended the award of grants should have been applying the same criteria to applications for grant that a bank would have applied for loan applicants in that financial growth based on an initial cash flow and balance sheet solvency should have been the only criterion for consideration of grant award.

2. The grants had been wrongly awarded as a result of poor supervision of the procedure by Invest Wirral and Enterprise Solutions (NW) Limited staff resulting in:

a) Poor work by Business Advisors appointed to assist businesses in making applications. WB2 specifically focussed on the work of one Business Advisors, [REDACTED] BA1, and also [REDACTED], BA2, to some extent.

b) Deceptions and collusion between BA1 and business owners to submit fraudulent information to apply for a grant.

3. The lack of control and deception resulted in grants having been awarded to businesses that were ineligible or soon had to cease trading despite having received a grant. Six businesses that had been awarded grants were cited as examples and two businesses cited as demonstrating inconsistency of treatment specifically with regard to the consideration of insolvency.

The Business Investment Grant applications quoted by WB2 related to:

- [REDACTED]

4. WB1 alleged that at a meeting with KA, the then Acting Director of Regeneration, Planning and Housing, KA stated that no business that had received a BIG grant had become bankrupt and ceased trading and consequently he had lied to WB1 because many businesses that received grants were insolvent when they applied and specifically, [REDACTED] [REDACTED] had gone into liquidation with large debts.

5. There was an undisclosed personal relationship between [REDACTED] Project Manager at Invest Wirral, and the owners of a business that was awarded a grant, which was likely to have resulted in the grant being awarded.

6. BA1, a Business Advisor, had personally benefited from a business for which he had assisted in the application of a grant.

7. A grant from the BIG budget had been awarded to a business that used it to publish a magazine that featured mostly articles from Wirral Council so the budget had been misused in that it had been used to fund Council activity rather than help businesses.

2.1 Evidence of alleged deception and bad practice in processing BIG applications presented to support allegations

[REDACTED]

WB2 presented a copy of an email from [REDACTED] [REDACTED] advising that the:

- balance sheet was insolvent by approximately £77,000,
- applicant was owed £135,000 [REDACTED]
- applicant owned the property in which the trading operation was based .

WB2 asserted that:

a) the business failed to meet the criteria for solvency as it had a balance sheet which showed net liabilities of £77,000.

b) the email WB2 presented, in which it was stated that the Directors' Current Account owed the applicant over £135,000, was used in the application to indicate the applicant was personally owed the sum from the business and that it would not be withdrawn as the applicant was the sole owner of the business. However, the position of the apostrophe s' rather than as 's showed there was more than one director owed money from the business so the business was dependent on another owner not withdrawing cash in repayment of debt, for its continued existence. This was a deception by the applicant which involved BA1, the Business Advisor, appointed by Enterprise Solutions (NW) Limited to assist in the application.

c) the Business Advisor, BA1, wrongly stated the applicant owned the freehold of the property which was the operational base of [REDACTED]. WB2 presented a record of 12 business transactions from April 2008 to March 2009 titled [REDACTED]. Consequently this indicated the property was jointly owned, so the continuance of the business depended upon the support of two owners and this was not shown in the application.

d) the projected budget :

i) showed sales of £529,920 which was a 50% increase on the previous year of £352,225.

ii) showed a profit of £109,873 based on a gross margin of 69% rather than an historic 50%.

iii) omitted depreciation of £40,000.

As the projections were unrealistic and there was a significant omission, consequently, the Panel was misled by the applicant in collusion with BA1 or as a result of his lack of diligence.

e) there was a personal relationship between [REDACTED] of Invest Wirral, and [REDACTED] which affected independence in assessing the grant application. It was stated this was demonstrated by [REDACTED] having given a bottle of champagne to BA1, the Business Advisor, after he had assisted [REDACTED] in receiving a grant.

Evaluation of the evidence

Assertion a) that an insolvent balance sheet in itself made the application ineligible was not the standard by which applications were judged. Each application was considered by taking many aspects into consideration rather than solely the financial situation. The Panel was often presented with applicants with net current liabilities in an insolvent balance sheet because of the condition of businesses which sought assistance. This was not considered a reason for refusal of a grant if the wider characteristics of the business

indicated the project would be successful. The balance sheet position was fully understood, assessed and reported in the Financial Assessment to the Panel.

Assertion b) concerning the company's Director Current Account which showed £135,000 indebtedness to its director or directors was reported by the [REDACTED] in the Financial Assessment and was considered as a risk that was unlikely to affect the business as there were no funds to enable the loan to have been repaid. The risk to the business of a previous director requiring repayment of the loan was known and reported to the Panel. The decision taken was that such action would have resulted in the business having to have been wound up in order to be able to make such a repayment which was considered to have been unlikely.

The evidence WB2 presented concerning the debt having been owed to more than solely the applicant was a record from the company's Sage accounting system showing a transaction entitled '[REDACTED]' and an email using a plural possessive apostrophe 's'. There was an assumption that Directors' Loan account automatically meant that there were several directors. An account could be titled Directors' as standard, whether or not there were any loans or not amongst its directors or sole director. The e-mail presented was from A [REDACTED], and stated that the debt was owed to the applicant alone. It would be unethical for an accounting firm to have made such an assertion knowing it to have been wrong and unreasonable to consider such a deception would have been carried out.

Assertion c) concerning shared ownership was not known to the Panel but was not material as the ownership of the premises that a business occupied was rarely determined by the Panel and it did not require this information for any applications as it was considered that most applicants traded out of rented or leased premises. The Panel did not seek to discover the ownership or contractual obligations of premises. The assumption was that the use of the premises continued as for any other of the business's resources. The ownership of the business premises was not a criterion in judging applications

Assertion d) that the Panel was misled by the forecasts provided having been deliberately overstated was a possibility but there is no proof that there was deliberate deception, poor judgement or if the forecasts were based on assumptions of changed trading factors. The Panel consisted of experienced business advisors, business people and both public and private sector accountants. The Panel was considered to have been aware of the inherent weaknesses in forecasting future events in cash flows and were pragmatic when considering such evidence. Though the projections were ambitious, there was no direct proof of the applicant or Business Advisor having deliberately and intentionally attempted to mislead the Panel.

[REDACTED] was regularly visited by the Project Manager allocated by Invest Wirral who verified the project funded by the grant succeeded and the business continued trading.

Assertion e) that there was a personal relationship that affected the independent assessment of the grant claim was solely evidenced as it was claimed that [REDACTED] of Invest Wirral, had given BA1, the Business Advisor who assisted in the application, a bottle of champagne after [REDACTED] successfully received a grant of £20,000. It was confirmed that BA1 did receive a bottle of champagne but he received it from [REDACTED]. The allegation was totally without foundation.

[REDACTED]

WB2 presented the applicant's business plan which showed a predicted increase in turnover of £20,000 due to the purchase of the new equipment financed by the grant, with a profit of £161,000 and showed an investment of £1.2m from the business' holding company, [REDACTED]. He stated that the Panel had been deceived by submission of inflated financial estimates and lack of clarity on liabilities. WB2 asserted that:

a) the profit forecast was excessive as the business had made a loss of £135,000 in the previous year; and the application stated a predicted profit of £161,000 in the following year which was based on an estimated £20,000 increase in turnover. WB2 considered the business was unlikely to achieve the £296,000 increase in profit in a year.

b) the investment of the holding company was worthless unpaid share capital.

c) the net current liability of the business was £100,000 if the stated £1.2m debtor was ignored which made it insolvent so ineligible for grant.

Evaluation of the evidence

Assertion a),b) & c) did not provide evidence that was not known to the Assessment Panel, as there was a statement in the Appraisal that "the application satisfies the BIG Scheme criteria in that it will assist [REDACTED] with their plans to stabilise the business and will potentially create one new job." (Section 2 of the Appraisal issued 20 August 2010.) Enquiries were made for the Panel on the underlying worth of the group and the net liability was reported to the Panel. (Section 7 of the Appraisal issued 20 August 2010).

WB2's three assertions concerning the underlying liquidity of the applicant's group of businesses and whether the applicant's forecast was realistic were identified and considered by the Panel.

The submission to the Panel recommended that the project met the BIG criteria in assisting a company to stabilise and diversify their business. There was no evidence that the applicant deliberately falsified forecasts. [REDACTED] verified the business continued trading after receipt of the grant and fulfilled the purpose of the grant.

WB2 asserted the Panel had been presented with inflated financial estimates which enabled the business to have been considered as being suitable for a grant. The WB asserted:

a) the projected cash flow had been overstated to make the business appear in a better trading position than in reality as:

- The balance sheet at 31/03/2010 showed debtors of £31,135 but the cash flow forecast which commenced in May 2010 showed debtors of £80,000.
- The balance sheet's creditors of £16,253 had not been included in the cash flow.
- VAT of £36,043, previously included in the accounts was not included in the cash flow forecast.
- The bank balance of £25,296 shown in the cash flow was £4000 higher than it was in the 31/03/2010 balance sheet.

b) the projected cash-flow had to have assumed an unrealistic level of trading in a month to double the debtors, pay a VAT bill and increase the bank balance which was unrealistic to the point of having been deceptive or inept by the applicant and BA1, the Business Advisor, in allowing it.

WB2 presented an alternate cash-flow projection using the same information used by the applicant and Business Advisor, which showed that rather than closing the year with £42,506, there would be a deficit of £23,816 and showed that there was a deficit throughout the period whereas the cash-flow submitted always had a positive cash balance.

had become insolvent and therefore proved the grant money was wasted by having been given to a failing business.

Evaluation of Evidence

Assertion a) and b): WB2's revised cash flow forecast indicated there would be a deficit at year end of £23,816 rather than the £42,500 cash, as estimated in the cash flow submitted in the grant application. Though a deficit, this cash position would still have been an improvement on the opening deficit of £51,930 used in the WB2's forecast and such results were considered acceptable to the Panel and enabled businesses to have a grant depending on its judgement of the business.

The business was only nine months old when the application was made. cash flow forecasts were considered by the Panel as unreliable, particularly with regard to new businesses as it was accepted that there was no previous experience of the business' activity to provide evidence for precise estimation of cash flow projections.

Assertion c):

had ceased trading. The original application had been approved on [] and the grant paid on []. Correspondence had taken place between Invest Wirral and one of the directors of during March 2011 concerning a transfer of the business and assets of to a new company, which had been formed on 11th October 2010. Following consultations with the Department of Law, HR and Asset Management, Invest Wirral approved this approach as the project would continue to be realised and the associated jobs preserved. Accordingly, took over the assets, orders and staff of .

One of the directors of had set up the new business with a new director. The conditions of the grant as specified in Paragraph 10 of the offer letter permitted successor businesses to inherit equipment purchased with a BIG grant. Although the former director attempted to pay the debts of , that company subsequently entered liquidation in May 2011.

Invest Wirral confirmed continued trading successfully and delivering the outputs which was the purpose of the grant. There were records of ongoing reviews and contact with which was considered to be successful as three extra people had been employed and three apprenticeships established since commenced trading. The equipment purchased with the grant was at premises and was being used.

WB2 presented information from Companies House which indicated there had been attempts to close down Ltd which included annual accounts which showed debts outstanding.

WB2 asserted:

a) neither the applicant, nor BA1, the Business Advisor, included in the application that was also the sole director of which was a business with deficits shown in the trading accounts of £187,000 and that the solvency of the applicant business was dependent upon a £69,117 debt from which was unable to repay the debt because of its deficit. Without this debt, the applicant business was £52,000 in deficit with net current liabilities of £216,060 and so ineligible for the grant to have been awarded.

b) that the applicant's business' accounts showed annual losses of £24,183 and £68,404 and the management accounts showed a loss of £1,949. The applicant's , lost £10,000 in one year and £81,000 in another. WB2 considered these facts indicated the business owner as unsuitable to receive a grant as his business ability was not adequate and both his businesses were insolvent so he was ineligible for a grant award.

c) the application submitted stated the limited company had been closed down, whereas despite attempts to voluntarily remove the company from the Register of Companies, objections had been raised and the company was still on the register.

d) the accounts submitted showed a freehold property re-valued from £85,480 to £225,000 with no evidence to support it and the profit and loss account submitted in the application was incorrect as it should have reflected the large changes in the balance sheet as a result of this revaluation.

e) though all this evidence was available for the Panel, a grant was awarded. Third parties would expect grants of public money to be to enterprises which were profitable but lacked cash for investment and managed by directors with proven business expertise.

Evaluation of Evidence

Assertion a),b) and c): The accounts submitted in the application showed these issues so they and the other issues were known to the Panel as the application stated the existence of a limited company created to trade in London and the South East and that it was closed down in 2009. It was stated that the business started well, but due to a relationship breakdown, ended badly. The application stated that [REDACTED] the applicant, was left to wind up the business and settle the debts, and that this has been achieved at considerable personal cost. The application also stated that there was a charge against the freehold premises taken out to pay off the liabilities of the then, non-trading limited company.

Assertion b): The BIG criteria stated that "The business and its directors must be solvent". Being a director of another insolvent company was not a reason for being disbarred unless that business was in receivership which would have made the director personally insolvent and so ineligible for a grant. WB2 did not assert that [REDACTED] was insolvent and there was no evidence of it, so RC was not disbarred from being considered for this grant.

Assertion d): The application stated that the premises were owned freehold with a mortgage from Nat West Bank, valued by [REDACTED] at £250,000 and that [REDACTED] also owned a mortgaged residential property. The revaluation was shown in the business' Revaluation Reserve, which was stated in the application. The [REDACTED] considered it was appropriately treated in the accounts and reported to the Panel correctly.

Assertion e): All the financial information presented by WB2 had been made available to the Panel for consideration of the grant. There was no evidence to suggest that there was expectancy that third parties would expect grants of public money to be made to only enterprises which were are profitable but lacked cash for investment. BIG awards were made in accordance with approved Council policy on eligibility.

[REDACTED]

WB2 asserted that the cash flow included in the grant application had understated the income likely to have accrued to the business, in order to have made the business appear suitable for award of a BIG grant.

WB2 asserted:

a) there were inconsistencies in the way that sales were treated in the cash flow. WB2 stated that the income from sales made each month were recorded in the projected cash flow in the following month but that the income estimated from the debtors of £95,000 which were in the year end accounts did not follow this convention as they were spread over six months. This made the business appear to be eligible for grant because of the estimated cash flow.

WB2 drafted three alternative cash flow statements from the data in the cash flow submitted as part of the grant application. These used assumptions that debtors would have paid in one, two or three months, respectively which WB2 stated were more reasonable assumptions and demonstrated that there was no need for the grant so the Panel had been deceived in awarding a grant.

b) the Council was wasteful in having made a grant to a business in which the turnover was projected to only increase to £58,000 after a £20,000 grant. WB2 stated that this represented a poor investment and the business did not meet any bank's criteria of profit to make it eligible for a loan, so it should not have a grant of public money.

c) the publication produced using the grant was effectively an [REDACTED] " [REDACTED]

[REDACTED]

[REDACTED]

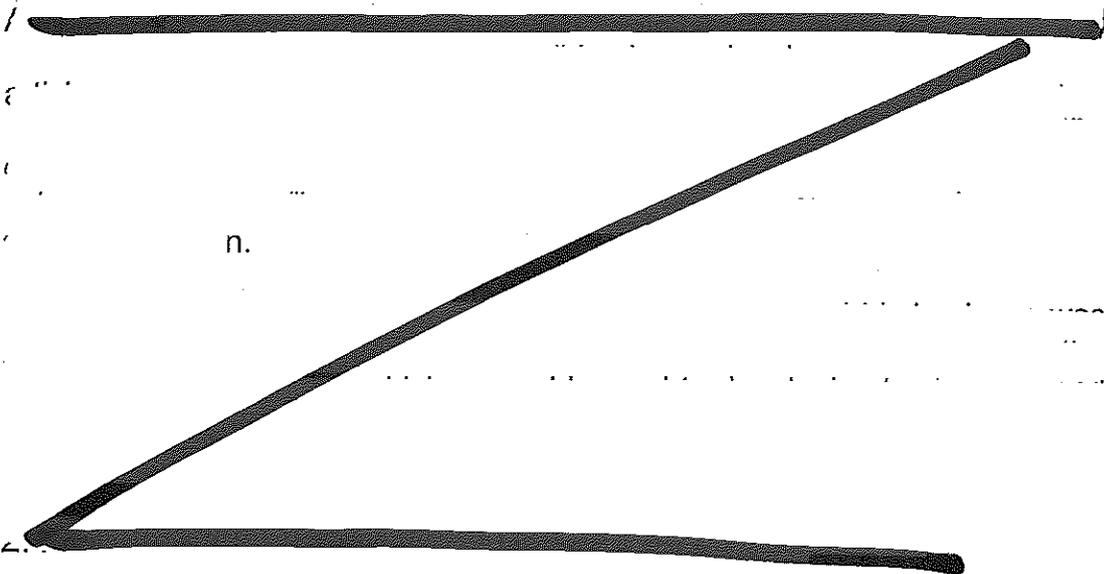
d) BA1, the Business Advisor who assisted in the preparation of the grant application, benefited personally from the magazine because he wrote a column in the magazine which included reference to his own business.

Evaluation of Evidence

Assertion a): WB2 provided three alternate budgets, none of which showed the cash flow would have fallen to a level that would have indicated the business would have been eligible for a BIG grant. WB2 reviewed and changed some of the expenses estimated as well as adjusting the estimated periods in which debts would have been collected. If the cash flow projection had been prepared in any of these forms, the [REDACTED] considered it was unlikely the grant would have been made. WB2's implication was that the Panel was deceived by the applicant and BA1, the Business Advisor who

assisted the application preparation. There was no evidence of deception and the uncertainty related to cash flow projections was recognised by the Panel who always made decisions on grant allocation after consideration of wider characteristics of the applicant's business rather than solely on cash flow projections. These were recognised as always having been based on assumptions which were subjective as indicated by WB2's three alternative estimates.

Assertion b): The BIG scheme was not established to make grants to businesses that were profitable and complied with commercial banks' criteria to receive loans. The BIG Grant criteria were established so that assistance would be provided to businesses to create and maintain jobs as a result of the development of specific new projects.



WB2 asserted the Business Advisor, BA1 had decided that a grant should not be awarded to [REDACTED] which he was not authorised to do and he had favoured another business by assisting in its grant application inappropriately.

WB2 asserted:

a) BA1, the Business Advisor decided that the application would not be prepared and submitted to the Panel as the business was insolvent as a result of a negative balance sheet of £15,000.

b) this business had been unfairly treated differently to [REDACTED] who also had BA1 as Business Advisor. WB2 stated [REDACTED] as also insolvent with a larger negative balance sheet of £66,000, but their application was assisted by BA1, submitted to the Panel and a grant awarded.

Evaluation of Evidence

Assertion a): [REDACTED] did not proceed to application stage. [REDACTED] had been in existence for only two years and had not started trading as its business was software development. The first synopsis presented by the business for Invest Wirral was rejected by Invest Wirral as the project of development of software was estimated to have been completed outside the period of the grant scheme at that time, and there was no evidence that it was a viable business as no income was estimated to be generated from the financial information presented. The business claimed it would invest £1,000 of its resources into the project and that was considered unrealistic. Subsequently, a second synopsis was rejected with a revised project timescale but the finances were still considered to have been too weak and the financial evidence did not demonstrate a sustainable business. The project at that stage of development was considered to have been too speculative to support. BA1, the Business Advisor, did not reject the two synopses and it was not his role to do so. The decisions and comments were passed by Invest Wirral to the business as reasons for not being able to proceed to full application stage.

Assertion b): In comparison, [REDACTED] at the time of its application, employed eight permanent staff and planned to take on a further two as a result of the project along with additional free-lance driver support. The accounts in the year to date at the time of their application showed a turnover of £335,768 which generated profits of £25,678. The business had been in existence for over forty years at the time of its application. [REDACTED] application taken as a whole therefore presented a different proposition to that of [REDACTED]. The allegation concentrated solely on the size of the balance sheet deficit as evidence of potential unfairness, whereas there was consideration of more aspects of a business before deciding on allocation of grants.

[REDACTED]

WB2 asserted that attempts to obtain a grant by fraud had been committed by an applicant in collusion with Business Advisors.

WB2 asserted:

a) the accounts prepared by a Business Advisor, BA2 to support the grant application were of a poor standard, and included many errors and discrepancies. In particular, the balance sheet did not show any liabilities or stock so did not fulfil the basic requirements of a balance sheet and WB2 stated there was no evidence for the figures in the balance sheet and the accounts were not audited.

b) the submission of these documents to support an application for grant amounted to an attempt to gain a pecuniary advantage by misrepresentation, in which the Business Advisor, BA2, was a participant.

c) BA1 was assigned as Business Advisor in place of BA2, to further assist the application after the queries on the accounts and balance sheet raised by the Chief Accountant, had been addressed. WB2 presented documents to demonstrate the business had submitted 'dormant' accounts to Companies House as a limited company for the period to 30 June 2010, whereas the grant application included management accounts for April 2009 to March 2010, so he asserted that the accounts re-submitted were therefore fictitious and so a fraud had taken place to obtain the grant.

Evaluation of Evidence

Assertions a) and b): ██████████ stated that there was no reason to suspect attempted fraud had been committed. ██████████ ad enquired into the absence of liabilities and stock on the balance sheet initially submitted, and the unrealistically low level of drawings. The reasons were that the business' nature was cash-based, stocks were not held, and the applicant's partner had salaried employment elsewhere from the business which would provide support. The business had been changed from a "sole trader" to a limited company. These explanations were acceptable to the ██████████ and it was not expected that the accounts would have been audited.

Assertion c): ██████████ confirmed the submitted application was in accordance with grant regulations and the financial information submitted was appropriate. The business was visited by Invest Wirral after it received the grant and it was confirmed as trading and having used the grant in accordance with the application. There was no evidence of fraud. The business had been dormant as the owner had been in hospital for a long period and no trading took place then.

██████████

WB2 asserted that the BIG grant was awarded without adequate evidence of financial issues having been presented.

WB2 asserted:

a) a Business Advisor appointed by Enterprise Solutions (NW) Limited, produced management accounts from ██████████ accounting system and so they had not been prepared independently. They were used to support their application for a BIG grant.

b) the need for a grant was queried by the Council's ██████████ from the evidence of the cash flow.

Evaluation of Evidence

Assertion a): Annual financial accounts were also submitted as part of the application. Management accounts were accepted to indicate the recent financial condition of applicants. Small businesses and those that had recently

started trading were not expected to produce audited accounts and management accounts were not required to have been prepared independently.

Assertion b): ██████████ had raised issues related to the cash flow projections and included his opinion in the Financial Assessment. The Panel authorised the grant to fund a specific project after considering all aspects of the business and the merits of the planned project.

3.0 Conclusions and Findings relevant to allegations in Section 2.0

Allegation 1. The Council approved the BIG process specifically to safeguard jobs in businesses experiencing difficulties. Such businesses were at risk and consequently there was a risk attached to giving grants. WB2's basis for challenging the award of grants was based on his own assumptions concerning policy.

The Council had set a criterion that all businesses must be solvent but this term had not been specifically defined. The definition was interpreted by the Assessment Panel by considering the Insolvency Act 1986. "Balance sheet insolvency" in which a business' balance sheet showed it to have more total liabilities than assets was not considered to have been a reason to exclude applications whereas extreme "cash flow" insolvency, in which a business was unable to pay its debts in a reasonable time was considered a potential reason to not award a grant. However, businesses that were targeted by the policy were those that were in need of cash to develop a specific project which would assist in job creation or preservation. Awards were considered by the Panel on the basis of a wider view of the applicant's business rather than purely the arithmetic condition of its finances, so WB2's opinion that basic "balance sheet insolvency" was a reason to refuse a grant was erroneous.

Finding

The Business Support Grant criteria had been authorised by the correct procedure in the Council and so WB2's basic premise was not an appropriate basis for his complaint of waste of public money.

All businesses quoted in the allegation were found to be still trading, apart from ██████████ whose business had been transferred to a successor company.

Allegation 2. The majority of WB2's allegations were based on the accuracy and reasonableness of cash flow projections. It was recognised by the Council's ██████████ and the rest of the grant assessment Panel, which was composed of experienced, qualified persons from a variety of backgrounds, that projections were based on assumptions and so could be portrayed in different ways. The Panel based its decisions on the total evidence supplied rather than solely the cash flow.

Finding

There was no evidence that anything which has been alleged was a malicious or fraudulent action by any individual nor that there were any significant errors committed by staff or Business Advisors

Allegation 3. There were six businesses cited by the WB2 as evidence of poor judgement in awarding grants, but all were verified as trading after the grant and achieved the objective of the proposed project and maintained jobs. The two businesses that were cited as demonstrating inconsistent treatment and potential favouritism were posed as they both had elements of insolvency. However, there were significant differences in the overall characteristics and history of the businesses and value of the proposed projects which justified the Panel's independent decisions on each of them.

Finding

The continued success of the businesses cited and evidence of appropriate reasons for different treatment of two businesses indicates no evidence of poor judgement in awarding grants.

All businesses were followed up as a matter of course by Invest Wirral who verified that, despite difficult economic circumstances all had delivered the projects in full, including creating the new jobs referred to in the grant applications. As part of the investigation, Internal Audit have verified that all those applicants referred to in paragraph 3 of section 2 above, which were limited companies, remain in existence and have not gone into liquidation, apart from [REDACTED] whose business has been transferred to a successor business (see Allegation 4 below). In the case of the one applicant which was not a limited company [REDACTED] Internal Audit have verified that the business is still trading.

Allegation 4. Before raising whistleblowing allegations, WB1 had met KA, the then Acting Director of Regeneration, Planning and Housing to initially query: Wirral BIZ and its operation of the ISUS programme; whether we could support him in an appeal to get his job back; the allocation of BIG grants and, in particular a number of businesses that had received grants and had failed. However he did not specify any business by name. KA had disagreed that these businesses had gone into liquidation. In the Whistleblower's allegation, WB1 quoted the liquidation of the business, [REDACTED]'s evidence of a business that had failed after receiving a grant so considered this was evidence that KA had lied to him. The project funded at [REDACTED] transferred to a new business which had been created by one of the owners of [REDACTED] in accordance with the conditions of the grant. [REDACTED] did subsequently go into liquidation [xx] months after the application was approved and after it was agreed to transfer the project to [REDACTED], but the aims of the project funded by the grant were achieved and continued.

Finding

The meeting between WB1 and KA took place on 5 July 2011. As at that date one of the companies referred to in the allegation had gone into liquidation although its business and assets had previously been transferred with the approval of KA to a successor company which was continuing the grant funded project. There is evidence that KA was aware that the original company had continued in existence following this transfer. There is no evidence that KA was aware that the original company had subsequently gone into liquidation. Ongoing monitoring of the related project continued through the successor company. As such there is no evidence to support an allegation that KA had lied.

Allegation 5. The allegation of an undisclosed personal relationship that would have affected professional judgment was based solely on an alleged gift but it was confirmed the gift was not from the person against whom the allegation was made

Finding

There was no evidence found to support the allegation of an undisclosed personal relationship or favouritism.

Allegation 6. BA1 had an inappropriate business relationship with a business as BA1 wrote articles for the magazine funded by a BIG grant, subsequent to him assisting in the preparation of their grant application.

Finding

This relationship did not commence until after the grant had been awarded but the potential conflict of interest, was not recognised by BA1. BA1 was not aware of a procedure for declaring potential conflicts and was not required to follow public sector standards. BA1's skills and business experience were relevant to the perceived audience of the magazine. There was no evidence that BA1's work for the magazine influenced BA1's role as Business Advisor.

Allegation 7. The magazine's targeted readership was those interested in small-business development. It did include articles from Council staff that had specific responsibility for providing assistance to business development.

Finding

The magazine was not the responsibility of the Council, was not under the control of the Council and there was no evidence it was an "in house" publication as articles were written by Council staff only by invitation.

ISUS-ALLEGATIONS RELATED TO ISUS BUSINESS SUPPORT INTRODUCTION:

Allegations were made under the Council's WB policy by 2 persons employed by a company which had a contract with the Council to deliver the Intensive Start-UP Support (ISUS) Programme. This report explains the background and organisation of the ISUS scheme (1.0 to 4.3), states the allegations and examines the details of the evidence presented to support them (5.0 to 5.12) and presents the conclusions and findings of the enquiry. The company, Enterprise Solutions (NW) Limited, functioned as a business separately from Wirral Council and conducted business unrelated to the Council as well as its activities as a contractor to the Council.

1.0 BACKGROUND

- 1.1 Since October 2004 Wirral Council operated a business start programme which was run by Enterprise Solutions (NW) Limited and called, Wirralbiz. The Programme was approved by the then Wirral Waterfront SRB Initiative Board and endorsed by Cabinet on 4th November 2004. It provided awareness sessions, development workshops, and continuing assistance through regular 3-monthly reviews along with advice to all businesses which had been started as a result of participation in the scheme. The scheme was successful in attracting a high number of potential entrepreneurs to Wirral and continuously creating a high level of new sustainable businesses monitored over a period of 24 months.
- 1.2 The Programme also offered a business start-up grant, on a differential rate with priority given to the defined deprived areas and the requirements of the new businesses.

The grants ranged from £500 to £2,000 and they were considered as being an essential element in helping a business in its early months of trading.

- 1.3 (a) On 1st April 2009, the North West Development Agency (NWDA) introduced a Regional Business Start Programme which it named Intensive Start-Up Support (ISUS). This was part of the Government's National Business Support Simplification Programme (BSSP) which aimed to reduce the number of business support initiatives nationally to less than 100 by 2010. The NWDA agreed to make funding available from its own resources and the European Regional Development Fund (ERDF), which it managed, to support the ISUS Programme. The process involved the NWDA undertaking a full tendering exercise, compliant with European procurement legislation, to invite suppliers to tender to deliver the prescribed programme throughout the North West. The names of the successful suppliers were announced in February 2009 and they were invited to become a member of the NWDA Supplier Panel. To access services from this Panel, Wirral Council had to undertake an independent tendering procedure with all suppliers identified by NWDA on the Supplier Panel as suitable to provide the service in Wirral. The invitation to tender was sent to potential suppliers on 24th July 2009.

The NWDA agreed to make available to Wirral Council over the scheme's planned 3 years, 2009/10 to 2011/12, £1,593,863 providing the specified outputs were achieved:

New Business Starts	676
New Jobs Created	1216
New businesses trading at the end of 12 months	93%
New businesses trading at the end of 24 months	83%
New businesses trading at the end of 36 months	72%

- (b) In the tender specification, the Council set a requirement of achieving 900 business starts over the three year programme (300 per annum) as this number was required to assist in closing Wirral's enterprise gap which was identified in the Regional Economic Strategy.
- (c) The ISUS Programme became operative from April 1st 2009 but commenced in Wirral, on October 1st 2009 after the tendering process resulted in the contract being awarded to Enterprise Solutions (NW) Limited (the incumbent business-start service provider) at a unit cost of £2,200 (excluding VAT) per new business-start, totalling a maximum contract of £1,980,000 for the next three years. To achieve the Council's target of 900 starts, £386,137 of Wirral's Working Neighbourhoods funding was used to supplement NWDA's allocation of £1,593,863 (As approved by Cabinet on 3rd September 2009).
- (d) Wirral Council's original business start programme (1.1 above) was more comprehensive than the scheme defined in the NWDA ISUS programme which did not include the awareness sessions, development workshops and continuing support in the form of on-going 3- monthly reviews. As these 3 elements were considered to have been extremely successful in assisting business creation and with the agreement of the NWDA, it was specified in the tender for the ISUS provider that the Council might wish to procure these additional services from the successful supplier because of the proven benefits that they brought to the existing programme. This additional work was awarded to Enterprise Solutions (NW) Limited in December 2009, as approved by Cabinet on the 26th November 2009, and was formalised by a separate agreement between the Council and Enterprise Solutions (NW) Limited.
- (e) The key element of provision of a business start-up grant was retained in parallel with the ISUS and related Council programme, but to maximise the support that could be given to businesses from the Council budget, each grant was reduced to a flat rate of £500.
- (f) To enable Enterprise Solutions (NW) Limited to deliver the business start-up service, they employed several Business Advisors to provide elements of the

programme including advice and training to business owners and those wishing to start businesses.

2.0 ELIGIBILITY REQUIREMENTS

2.1 The ISUS Programme and related Council assistance was available to:

- a) All residents living in the Borough who were starting a new business or had started a business within 3 years. Businesses that had already started were not eligible for the £500 start-up grant.
- b) People wishing to start and locate a new business in Wirral.

3.0 ASSISTANCE PROVIDED

3.1 NWDA ISUS PROGRAMME

- a) Assisting business owners in the development of viable business plans, cashflow and profit and loss forecasts and provision of business advice to enable new businesses to be established and commence trading in Wirral.
- b) Post-start support including contact with businesses initially at 3 and 6 months and ongoing monitoring at 12, 24 and 36 months.

3.2 WIRRAL COUNCIL SUPPORT PROVIDED BY ENTERPRISE SOLUTIONS (NW) LIMITED UNDER A SEPARATE AGREEMENT

- a) Awareness sessions, development workshops, continuing assistance and additional reviews at 3-monthly intervals which were in addition to those that were paid for by the ISUS programme.
- b) A £500 grant payable by the Council to business starts that had successfully been registered on the ISUS Programme at start up stage and had commenced trading as an entirely new business within the Borough which was confirmed by a monthly monitoring report produced by A4e.

4.0 CONTROL PROCESS

4.1 MANAGEMENT

NWDA engaged A4e as managing agents and auditor for the ISUS programme. Wirral Council had no involvement in the selection of A4e or in reviewing the quality of their work as A4e was an agent of NWDA.

- a) A4e had responsibility for the quality of the programme, its performance management, and building the capacity of suppliers such as Enterprise Solutions (NW) Limited at Wirral.

b) A4e undertook monitoring meetings with Enterprise Solutions (NW) Limited and conducted annual audits of Enterprise Solutions (NW) Limited.

c) Monthly contract meetings were held between Council officers, A4e and Enterprise Solutions (NW) Limited and quarterly strategic meetings held between Senior Managers of Wirral Council, A4e and NWDA to review the performance of Enterprise Solutions (NW) Limited as the supplier of the programme.

4.2 EVIDENCE REQUIRED TO SUPPORT APPLICATIONS FOR ASSISTANCE THROUGH THE ISUS PROGRAMME

A4e managed the ISUS Programme on behalf of the NWDA and specified a series of control forms that had to be completed by Enterprise Solutions which they then had to upload onto a Computer Records Management (CRM) system. This stored all the data of clients entering and progressing through the ISUS Programme

The system which was outside the control of the Council, was also used to allow the supplier to evidence claims for payment at each stage of each client's progress of development.

The documents that had to be completed to confirm a businesses progress through the ISUS Programme are listed on page 6 of the A4e "Audit Forms Guidance Notes document" which is attached at Appendix 1.

4.3 EVIDENCE REQUIRED FROM NEW BUSINESSES TO RECEIVE THE COUNCIL FUNDED £500 STARTER GRANT

- (i) Confirmation from the A4e monitoring system that the businesses had started trading, and a form signed by the business start applicant confirming their bank details including an account in the business name.
- (ii) Evidence that the applicant was either a resident in Wirral eg. Production of a utility bill or a copy of the businesses premises lease or licence confirming that the business would be based in Wirral.

4.4 PAYMENTS

4.5 PAYMENTS TO ENTERPRISE SOLUTIONS: ISUS FUNDED ACTIVITY

NWDA made funding available monthly, in arrears, to Wirral Council on the basis of evidenced claims from Enterprise Solutions (NW) Limited which had been verified, by NWDA's managing agent, A4e. The claims were submitted by Enterprise Solutions (NW) Limited to Wirral Council who paid Enterprise Solutions (NW) Limited and reclaimed the amount from NWDA.

As specified by NWDA, A4e carried out 10 % sample checking of evidence for every monthly claim period.

4.6 ADDITIONAL BUSINESS START SERVICES AS PROCURED BY WIRRAL COUNCIL

Enterprise Solutions (NW) Limited submitted invoices to Wirral Council, with supporting evidence, that services had been carried out i.e. copies of attendance registers for awareness sessions, development workshops and lists of the 3- monthly reviews that had been carried out in addition to the reviews funded by ISUS.

4.7 WIRRAL COUNCIL £500 GRANT SCHEME

Once a business had been accepted on the ISUS programme at business start stage as verified by the A4e monthly monitoring report, Enterprise Solutions (NW) Limited sent to the Council Programme Manager evidence that the business owner was a Wirral resident and/or had a lease for business premises in Wirral

A BACS form signed by the business' owner confirming the business account details were also submitted to enable payment of the grant to be made direct to the business bank account.

5.0 ALLEGATIONS

The allegations were that there was:

- a) A lack of control by Enterprise Solutions (NW) Limited of their Business Advisors in terms of their skill and efficiency of their work, or deception by Enterprise Solutions (NW) Limited in collusion with their contracted Business Advisors.
- b) A lack of supervision of Enterprise Solutions (NW) Limited by Wirral Council that allowed the poor practice or deception to take place. The relevant Wirral Council staff responsible for contract supervision were not qualified or suitably experienced to supervise such work.
- c) An inadequate number of audits were conducted by A4e and the quality of their audits was poor.
- d) A lack of action by Wirral Council and Enterprise Solutions (NW) Limited, in response to audit reports from A4e.
- e) A very large waste of public money as a result of the poor control over Enterprise Solutions(NW) Limited .

The WB provided several examples of instances which was presented as evidence to support the allegations:

5.1 TAX RETURN ERRORS

- Assertion: Tax returns produced by a member of staff at Enterprise Solutions (NW) Limited contained errors.

Finding: It was acknowledged by Enterprise Solutions (NW) Limited that there were errors on tax returns which did affect a small number of ISUS participants. Enterprise Solutions (NW) Limited confirmed that the employee who was responsible for these errors was disciplined and clients for whom the tax returns were completed were all contacted to review previous work and corrected tax returns were resubmitted where necessary.

5.2 CASH FLOW FORECASTS PLACED ON FILE THE NIGHT BEFORE A4e AUDIT

Assertion: Cash flow forecasts which formed part of a suite of documents that had to be completed to the satisfaction of A4e as part of their control mechanism, were only placed on file the night before each audit, whereas they should have been part of the process of assessment of business' suitability for help under ISUS.

Finding: Staff and management of Enterprise solutions (NW) Limited denied the practice and no documentary evidence of such action could be found. NWDA confirmed that their auditors, A4e, found no evidence of this practice.

5.3 INAPPROPRIATE DELEGATION OF BUSINESS REVIEWS

Assertion: Enterprise Solutions delegated the responsibility for carrying out business reviews to inappropriate, unqualified staff leading to excess profiteering.

Finding: The ISUS contract entered into by Enterprise Solutions did not stipulate that Business Reviews had to be carried out by a member of staff holding a specific qualification. It did however stipulate under Section 3 'Suppliers Responsibilities' that 'key personnel or any of the Suppliers Team shall be suitable skilled, experienced and qualified to carry out the Services'. Enterprise solutions maintained that all of their advisors held appropriate qualifications (most to degree level) which were commensurate to the tasks that they were asked to complete. Though a specific business qualification was not specified A4e as managing agents for the Programme defined this requirement as all advisors needing to hold Small Firms Enterprise Development Initiative (SFEdi) accreditation. (see 5.13 of the report).

Page 12 and 13 of the A4e Audit Guidance Note (Appendix 1) specifies the procedure for carrying out the 3 and 6 monthly reviews and the annual reviews which were a mandatory part of the programme.

The verification of all reviews during the course of the contract was the responsibility of A4e and it was they who signed them off as complete and acceptable.

5.4 INAPPROPRIATE BILLING FOR BUSINESS ADVISOR SUPPORT PRIOR TO AWARDING OF ISUS CONTRACT

Assertion: Invoices paid for by Wirral Council in May and August 2009 as part of the Council business start programme which pre-dated ISUS, was for work undertaken by one of Enterprise Solutions (NW) Limited Business Advisors [REDACTED] who traded as [REDACTED], in connection with him helping to

prepare Enterprise Solutions(NW) Ltd's bid for the ISUS contract. Consequently, Wirral Council had paid Enterprise Solutions (NW) Ltd to prepare their tender for the ISUS contract with the Council.

Findings:

[REDACTED] g was one of the regular Business Support Advisors employed by Enterprise Solutions as part of the delivery of the Council-funded Initial Business Start Programme which pre-dated ISUS.

Both invoices quoted by the WB were examined together with a sample invoice that was paid to [REDACTED] approximately 10 months before the allegation was made. (Appendix 2)

The invoices included a description of the work to which was stated as "Business Development." These were accepted by Wirral Council staff as referring to Business Advisor support that was delivered in accordance with the Council programme which pre-dated ISUS, and there was no reason for them to be queried.

The documents presented by the WB showed that the tender documents for the ISUS programme were received by Enterprise Solutions (NW) Ltd on 28th July 2009. Wirral Council records show the tender invitations were sent on 24th July 2009. Consequently, the invoice submitted by [REDACTED] the Council in May 2009 could not have been in connection with the Business Advisor preparing an ISUS bid on behalf of Enterprise Solutions (NW) Ltd as invitations to tender had not been issued then.

5.5 UNREALISTIC CASH FLOW FORECASTS

Assertion: There were unrealistic cash flow forecasts on files for new businesses and it was stated that a photography business, whose name WB could not recall, had a predicted first-year turnover of £1m when in fact actual turnover was less than £100.

[REDACTED]

Finding: All files relating to photography businesses that had passed through the programme were examined and cash-flow projections were considered. No business was found that had inflated cash flow forecasts. Enterprise Solutions (NW) Limited stated that their Business Advisors encouraged ISUS clients to prepare cash-flow forecasts conservatively so that owners of new businesses would not lose enthusiasm if they failed to meet unrealistic targets. [REDACTED]

5.6 [REDACTED]

Assertion: [REDACTED] received a business start-up grant when he was ineligible by virtue of having already received a grant.

Finding: The conditions that would preclude a business start from receiving a start up grant through the ISUS programme would be if they had already received one or if it was not a new business. Records presented by [REDACTED] demonstrated he

complied with the conditions for ISUS assistance. NO RECORD OF PREVIOUS GRANT?

5.7 MISSED DEADLINE

- a) **Assertion:** A Business Advisor [REDACTED] worked on tax returns for businesses and subsequently 6 months later, helped in their grant application. As there was a 3 month "window" limit from start-up, [REDACTED] had helped businesses which he knew were ineligible. WB stated he had reported this issue often to Enterprise Solutions (NW) Limited directors but with no written response or action.

Finding: There was no 3 month "window" for ISUS assistance. New and existing businesses up to 3 years old could take part in the programme. 3 months was specified as the maximum acceptable age of documentary evidence submitted to prove new businesses had started trading but this could be waived in certain circumstances if a satisfactory statement of explanation was provided to A4e. (See page 11 of Appendix 1)

- b) **Assertion:** The records for [REDACTED] trading as [REDACTED] showed the business had been trading for over a year as there was a lease from one year prior to her grant application. Also, the dates on tax returns produced by the Business Advisor, [REDACTED], indicated the business had been trading more than 3 months before application, which was contrary to the eligibility rules.

Finding: Evidence of a lease was not considered on its own as evidence that a business was "active" and so ineligible for a "Start Up" grant. In the case of [REDACTED], Enterprise Solution provided evidence and documentation (Appendix 3) which shows that she attended her first ISUS workshop on 2nd September 2009. [REDACTED]

August 2010 and the records show that she then re-entered the programme in August 2010 and completed the course on 8th September 2010. [REDACTED] started her business on 4th November 2010. Her business' file was found to contain all of the documentary evidence required by A4e as part of its control mechanism along with the signed standard declaration by Enterprise Solutions (NW) Limited and [REDACTED] that her business was eligible for entry onto the Business Start Programme. (Still need to deal with the tax return issue!)

[REDACTED]

5.8 EXAGGERATED TIME

Assertion: 25 minutes was charged as 1 hour after assistance had been given to a business.

Finding: Enterprise Solutions (NW) Limited stated that it was most unusual to have needed a meeting of less than an hour with a client and appointments for Business Advisors with businesses were allocated in hour periods to allow for

approximately a 45 minutes meeting and 15 minutes to complete required administration. All reviews carried out by Enterprise Solutions were in accordance with the A4e Audit Forms Guidance Notes and all were verified and signed off for payment by A4e's contract manager.

5.9 INCORRECT DATES ON REVIEWS

Assertion: When business reviews were completed in April, May and June it was the practice for these to be dated as August or else Enterprise Solutions (NW) Limited would not have been paid. The only example of this practice quoted was the file of the client [REDACTED]

Finding: [REDACTED]'s file was examined and every specified 3 monthly review was present. No evidence of falsification of dates was found

5.10 BUSINESS ADVISOR ASSISTING IN AN APPLICATION THAT WAS INELIGIBLE

Assertion: [REDACTED], as Business Advisor, assisted [REDACTED] in submitting an application for a grant which was awarded. The owner of [REDACTED] was [REDACTED] or who had previously owned a company that had been dissolved so [REDACTED] assisted an application from a bankrupt person which was contrary to the rules of the grant.

Finding: There was no record that [REDACTED] had been on the ISUS programme. The company was, however, assisted through an earlier Council initiative and commenced trading on 23rd October 2008 which was prior to the commencement of the ISUS programme in October 2009.

[REDACTED] is not shown as an un-discharged bankrupt person in the insolvency register of the Department for Business Innovation and Skills (BIS). Also there is no entry in the personal insolvency register under [REDACTED] was a director of [REDACTED] which was a limited company that was dissolved on 1 June 2010 having been incorporated on 7 January 2008. 'Dissolved' is not the same as liquidation or bankruptcy and can occur if accounts or annual returns are not filed because the business owner decided to cease trading. Searches of the London Gazette records for [REDACTED] indicated that a [REDACTED] was made bankrupt in 2004 in Newcastle but there is no indication this is Helen Oliver who owned [REDACTED]

5.11 FAILURE OF INVEST WIRRAL (THE COUNCIL SECTION RESPONSIBLE FOR THE CONTRACT) TO SUPERVISE ENTERPRISE SOLUTIONS (NW) LIMITED

Assertion: There had been a lack of supervision by Wirral Council since the beginning of programmes funded by Wirral Council with the result that millions of pounds of public money had been wasted.

- (a) The start-up grants were paid to businesses by Invest Wirral after inadequate basic checks were conducted to ensure that the business address was in Wirral and that the business had a business bank account and had started trading.
- (b) After concerns had been initially raised by the person who subsequently became one of the WB's, Invest Wirral carried out checks on business files. The comments that the WB subsequently found on the files indicated the Invest Wirral staff's lack of knowledge and expertise.
- (c) After Invest Wirral introduced more thorough checks on ISUS files to ensure that business plans and other documentary evidence were of a suitable standard, there were many grants and businesses rejected from ISUS. This more intensive system of checks should have been conducted initially and so prevented significant waste. The improved regime of supervision only occurred because of the initiative of the WB raising concerns.

Finding:

- a) The ISUS contract was managed by A4e on behalf of the NWDA. The checks that were made by the Council before a £500 start up grant was paid were:
 - (i) documentary evidence such as a copy of a utility bill or bank statement confirming their residential address
 - (ii) a copy of the signed lease/license for their business premises if the applicant lived outside Wirral:
 - (iii) a signed form from the client confirming their bank account details, which needed to be in the business name.
- b) The Project Managers employed by the Council who had direct responsibility for the contract:
 - had been appointed in accordance with Wirral Council's procedure for assessing qualifications, experience and skills;
 - were subject to regular Key Issues Exchanges which determined any training needs;
 - were 2 highly experienced officers. One had previously worked in the private sector holding a range of senior and managerial positions in the engineering sector. The other officer had over 20 years experience working with a range of business support agencies including CEWTEC and Business Link and was also a qualified PRINCE 2 practitioner.
- c) The checking of documentary evidence was not, at any time during the ISUS programme, the responsibility of Wirral Council. This was the role of A4e but

following an initial meeting with a WB in July 2011 Invest Wirral began to carry out secondary checks on all of the business files generated from the ISUS Programme as it was this system that the Council used to release the £500 start-up grant when the business had reached the start stage. From August 2011 through to the termination of the contract in December 2011 177 files were checked as they were being generated. Over the 5 month period, 65 had business plans that required additional information or had incorrectly completed documentation. The issues were reported to Enterprise Solutions (NW) Ltd who worked with clients to address them and resubmitted the plans to Invest Wirral with amendments. When the evidence was considered to be satisfactory, the grant payment to each business was approved. 3 business-start grant applications were not approved as these clients did not meet the criteria. The business plans submitted showed that 2 businesses would not be operating full time in Wirral and another business was not viable beyond its first year as it was a project with grant funding for one year rather than a business, and then no plan which demonstrated how income would be generated subsequently.

5.12 PHANTOM COSTS CHARGED TO WIRRAL COUNCIL

Assertion: It is likely that Enterprise Solutions (NW) Limited charged Wirral Council for work not carried out in the correct time frame.

In September 2010 one of the WB,s obtained copies of Business Advisors' invoices to Enterprise Solutions (NW) Limited for work they had completed in giving business advice and compared these to the records on the Enterprise Solutions (NW) Limited database. There were approximately 80 more interviews logged on the database than were supported by invoices.

The process was for Business Advisors to invoice Enterprise Solutions (NW) Limited for advice sessions delivered to businesses helped. These were used to compile an invoice to Wirral Council for a specific period, so that Enterprise Solutions (NW) Limited would be paid, in accordance with their contract. It was asserted that Business Advisors were scrupulous in submitting their invoices rapidly to claim their income, so it was asserted that interviews logged on Enterprise Solutions (NW) Limited's database not supported by Business Advisors' invoices were an indication of negligence or fraud by Enterprise Solutions (NW) Limited.

It was asserted that the additional work apparently recorded on Enterprise Solutions (NW) Limited's database might have occurred when the dates for post start-up support had been missed and Enterprise Solutions (NW) Limited might have claimed for the interviews and intended to do them later.

When this was raised with Enterprise Solutions (NW) Limited, the next day the database location was moved so the WB could no longer access it.

It was asserted that Invest Wirral might already have the Enterprise Solutions (NW) Limited database and if so the differences he initially identified could be identified.

Finding: Payment by Wirral Council to Enterprise Solutions (NW) Limited for work by their Business Advisors in compliance with the ISUS scheme was based on claims verified by A4e in accordance with standards specified by NWDA. The database maintained by Enterprise Solutions (NW) Limited was not part of the evidence used for A4e to verify claims and it was not used, or made available to Invest Wirral.

5.13 AUDIT REPORTS

Assertion: An audit report by A4e dated 11 June 2010 which was a review of Enterprise Solutions (NW) Limited's service in delivering ISUS, was produced by the WB who stated it highlighted the scope for fraud at Enterprise Solutions (NW) Limited. The WB also asserted that the findings of the report were ignored, Business Advisor meetings were not held to discuss the issues, none of the recommendations had been implemented and the report had been copied to Wirral Council who had taken no action.

Finding: The copy of the June 2010 audit report that the WB had possession of in June 2010 was a draft Supplier Audit Report that was issued by A4e to Enterprise Solutions (NW) Limited, the NWDA and the Council. It included recommendations to Enterprise Solutions (NW) Limited to improve the control of the ISUS programme in specified areas. These issues were subsequently included on the agenda of the monthly meetings held between A4e, Enterprise Solutions (NW) Limited and Council Officers and appropriate actions to resolve the issues were agreed and recorded in the minutes. The 'Final Audit' Report was produced on 11 October 2010 (t Appendix 4) confirmed that the "Financial Risk of the Programme was 0%" (page X of the Audit) and it included an Action Plan detailing the operational improvements that had already taken place since the date of the first audit visit and those issues that were on going.

A4e presented a 'Final Audit' Report on 1 February 2012 (Appendix 5) which reviewed the progress in implementing the Action Plan and confirmed that 'many recommendations from the last report have been completed or were part of the on-going actions to be completed during the contract by Enterprise Solutions (NW) Limited' (page x) This Report also showed that there were 2 recommendations that had not been implemented:

- a) All Enterprise Solutions (NW) Limited Business Advisors should be Small Firms Enterprise Development Initiative (Sfedi) accredited
- b) Enterprise Solutions (NW) Limited should achieve "Investors In People" (IIP) status.

Enterprise Solutions (NW) Limited did employ 2 Business Advisors with Sfedi accreditation towards the end of the contract and were therefore able to partly satisfy this Action Point. Enterprise Solutions (NW) Limited maintained to NWDA (as detailed in the minutes of June 23rd Item 9 monthly contract meeting attached

as Appendix 6) that their Business Advisors were qualified to a level in excess of Sfed accreditation, many to relevant degree level hence the protracted discussion between Enterprise Solutions (NW) Limited and NWDA to resolve the issue. The decision of Enterprise Solutions (NW) Limited not to secure IIP status for the company was still under discussion with the NWDA when the Agency made its announcement to terminate the Programme.

5.14 WASTE OF PUBLIC MONEY

Assertion: Money used in the ISUS scheme was wasted as a result of poor management and control, or fraud.

Finding: The NWDA set targets to be achieved by the ISUS programme so that its effectiveness could be measured. One of the targets was the creation of 676 new business starts in the 3 year period of the programme, but this was modified by Wirral Council when it commenced the ISUS Programme to 300 per year, to assist with the Council's target of closing the borough's enterprise gap as identified in the Regional Economic Strategy. The targets are listed in the table alongside the actual outputs achieved when the Programme was prematurely terminated:

	Targets		Output
	NWDA	WBC Modified	
New Business Starts	676	900	877 (1)
New Jobs Created	1,216		1,095 (1)
New Businesses Trading:			
After 12 months	93%		94%
After 24 months	83%		(2)
After 36 months	73%		(2)

Note (1): NWDA terminated the ISUS contract after 2 years 3 months rather than the 3 years as originally intended due to the Government's abolition of the Agency. The output achieved, in the reduced period of the scheme, for new business starts was 97% of the enhanced Wirral target. The output for new jobs created was 90% of the target.

Note (2): Invest Wirral started compiling the "24 months" target output and were also preparing to collect the "36 months" output target when the Council was contacted on 24th July 2012 by the former NWDA ISUS Programme Manager now

employed by the Department of Business, Innovation and Skills (BIS), which replaced the NWDA, to announce, that following discussions with the Department of Communities and Local Government and BIS, the ongoing requirement for post contract monitoring has been removed. The justification for this decision was due to the fact that stringent monitoring controls put in place by the former NWDA meant that the national ISUS Programme achieved 97% of its jobs targets at the end of December 2011 (10,700 against a profile of 11,000). An enhanced Article 13 ERDF Audit of the national programme also concluded that there were no major issues to resolve in relation to the management of the Programme.

6.0 CONCLUSIONS AND FINDINGS RELEVANT TO ALLEGATIONS IN SECTION 5.0

Allegation (a).

- No evidence of a lack of control by Enterprise Solutions (NW) Limited of their Business Advisors in terms of their skill and efficiency of their work was revealed.
- The company was subject to a NWDA tendering process to be eligible to deliver the prescribed programme.
- NWDA engaged A4e as managing agents and auditor for the ISUS programme.
- A4e undertook monitoring meetings with Enterprise Solutions (NW) Limited and conducted annual audits of Enterprise Solutions (NW) Limited.
- Monthly contract meetings were held between Council officers, A4e and Enterprise Solutions (NW) Limited and quarterly strategic meetings held between Senior Managers of Wirral Council, A4e and NWDA to review the performance of Enterprise Solutions (NW) Limited as the supplier of the programme.
- A4e managed the ISUS Programme on behalf of the NWDA and specified a series of control forms that had to be completed by Enterprise Solutions to evidence their management over all the clients who entered and progressed through the ISUS Programme

Finding

The control and management process established by NWDA was thorough and enabled Wirral Council and NWDA to be made aware of any issues of poor performance by Enterprise Solutions(NW) Limited and require any necessary remedial action to be taken.

Allegation (b)

- Wirral Council had no involvement in the selection of A4e or in reviewing the quality of their work as A4e was an agent of NWDA.

- Monthly contract meetings were held between Council officers, A4e and Enterprise Solutions (NW) Limited and quarterly strategic meetings held between Senior Managers of Wirral Council, A4e and NWDA to review the performance of Enterprise Solutions (NW) Limited as the supplier of the programme.
- The Project Managers employed by the Council who had direct responsibility for the contract: were appropriately qualified and experienced.

Finding

There was an effective system of supervision of Enterprise Solutions (NW) Limited by Wirral Council and NWDA that enabled the programme to be managed effectively. The relevant Wirral Council staff responsible for contract supervision were qualified and suitably experienced to supervise the programme.

Allegation (c)

NWDA engaged A4e as managing agents and auditor for the ISUS programme. Wirral Council had no involvement in the selection of A4e or in reviewing the quality of their work as A4e was an agent of NWDA. A4e undertook monitoring meetings with Enterprise Solutions (NW) Limited and conducted annual audits of Enterprise Solutions (NW) Limited.

Finding

Audits were conducted annually and followed up to verify the implementation of any recommendations, in accordance with standard audit practice.

Allegation (d)

- All audit reports included recommendations to Enterprise Solutions (NW) Limited to improve the control of the ISUS programme in specified areas when appropriate. Any such issues were all included on the agenda of the monthly meetings held between A4e, Enterprise Solutions (NW) Limited and Council Officers and appropriate actions to resolve the issues were agreed and recorded in the minutes.
- An example of an A4e Audit Report is the one dated 1 February 2012 (Appendix 5) which reviewed the progress in implementing a previously specified Action Plan and confirmed that 'many recommendations from the last report had been completed or were part of on-going actions to be completed by Enterprise Solutions (NW)

Finding

Action was taken to implement all recommendations made following audits by A4e, and their implementation was confirmed at subsequent audits.

Allegation (e)

Finding

The targets specified by the NWDA, and enhanced by Wirral Council were all met. These were verified as correct by the Department of Business, Innovation and Skills (BIS) .

Overall Conclusion

There is no foundation to the allegations of waste of public money , fraud or corruption.

BIG/ISUS INVESTIGATION

WORKING PAPERS AND DRAFT REPORTS

STRICTLY CONFIDENTIAL

Report to: Peter Timmins-Interim Director of Finance

Report by: [REDACTED]

Preliminary draft based upon a limited review within the time available

1. Purpose of Report:

1.1 To consider whether the hard copy and electronic working papers relating to the BIG/ISUS investigation ("the investigation") adequately support the findings of the draft BIG report and whether the draft report as currently presented would stand up to scrutiny and challenge;

1.2 To take into account the letter from one of the whistleblowers referring to shortcomings in internal audit and requesting that the matter be referred to external accountants to review in place of Internal Audit;

1.3 To recommend actions accordingly.

2. Scope

2.1 The background and details of the allegations are taken as read as these are set out in the current version of the draft report seen by the Interim Director of Finance, previous Acting Chief Executive and Chief Executive.

2.2 A letter has been received from one of the whistleblowers referring, among other things, to perceived shortcomings in internal audit and expressing doubts as to the department's ability to conduct an effective investigation and stating that the only credible course of action is to appoint an external auditor to investigate the allegations.

2.1 At the request of the Interim Director of Finance I have begun the process of collating the hard copy working papers. I have sample reviewed the hard copy files and reviewed electronic copies of most of the interview transcripts available. I have read the draft BIG report. I have attempted to cross reference the findings of the draft report into any supporting working papers, evidence or evaluation. The limited time available has not allowed for a detailed review of all documents and correspondence, much of which is lengthy, complex and discursive. I have not tested any of the findings against evidence, except that I have previously been involved in one particular area of research at the request of the Chief Internal Auditor. It is therefore possible that documentary evidence may exist, but which I have not yet located, which supports work done, evaluation of evidence and conclusions drawn.

3. Conclusions

3.1 In my opinion, based on my limited review to date-

- a. The BIG report as presently drafted will not stand up to external review of the working papers and supporting evidence;
- b. When the findings are publicly challenged the department will not be able to mount a credible defence of those findings because of a lack of a clearly documented evidence trail from the allegations to the findings;
- c. It will be difficult to refute an allegation that all of the allegations have been addressed because of a lack of comprehensive record of all of the allegations and how they have been dealt with;
- d. Likewise, it will be difficult to refute an allegation that the investigation was not even handed, because of a lack of documentary evidence weighing the allegations against evidence from officers or any independent evidence;
- e. Although I have not reviewed the draft ISUS report by reference to the working papers I consider that the above conclusions will also apply to the draft ISUS report which is currently a work in progress.

3.2 It is possible that a process of collation, indexation and the writing of summary conclusions may rectify the apparent shortcomings in the documentation; however, as things stand, it is difficult to envisage it being possible to put forward and defend the report based on the material currently available.

4. Recommendations

4.1 I recommend that-

a. The draft BIG and ISUS reports and working papers should be reviewed by an external firm of accountants or solicitors specialising in investigations for local authorities to form an independent view as to:

- Whether the findings of the report are supported by the working papers and any other available evidence;
- Whether the working papers and other available evidence show that all of the allegations have been addressed;
- Whether the working papers show that a thorough and independent investigation has been undertaken and which supports the findings of the draft reports.

On the basis of a desk top review without independent testing or interviewing of witnesses I would estimate the costs of such a review at £5-10,000.

b. In the event that this review concludes that the draft reports as currently drafted cannot be sustained then an independent firm of accountants or solicitors should be appointed to conduct an investigation into all of the whistleblowers' allegations.

5. Review of Working Papers

5.1 Set out below are some of the matters arising from a limited review of the available hard copy and electronic working papers and the draft BIG report:

- a. There is no summary of the work which has been carried out to test the veracity of the allegations and hence to conclude that each allegation had been fully investigated and all the evidence obtained considered and evaluated in arriving at the findings in the report;
- b. There is no summary of findings linking the draft report to the working papers and hence the supporting evidence;
- c. The working papers have not been arranged in any logical sequence or arranged by subject matter or indexed which would allow the documentary evidence supporting the findings in the report to be located;
- d. There are a very high number of communications from both of the whistleblowers and these have continued from the point of first contact through to the present. Many of these provide new allegations, support for previous allegations or indications as to where evidence can be found to support allegations. These are not collected in one place hence there is no evidence that all of the allegations have been addressed or that all available evidence provided has been considered;
- e. The allegations concern the actions of Enterprise (NW) Limited as well as officers of the authority. There is evidence in the files of some co-operation from that company but also evidence of a lack of co-operation in some instances. There is a lack of clear evidence as to how allegations against that company have been dealt with in the absence of full and open access to their files. Equally, allegations by staff and suppliers of that company against the whistleblowers, including allegations of threats of violence against one of the

business advisers against whom some of the allegations were being made, have not been dealt with in the working papers or reports;

f. There is no evidence in the working papers showing how the allegations and evidence have been evaluated in light of interview or other available evidence and the conclusions formed which form the findings of the draft reports;

g. Some of the hard copy evidence provided by the whistleblowers is not filed but remains in loose format. Accordingly it is not possible to determine whether this evidence has been considered or evaluated;

h. The draft BIG report separates out the allegations relating to Business Investment Grants (BIG) and those relating to Intensive Start-Up Support Programme (ISUS) which are the subject of a separate draft report. There is no document setting out the split of the allegations between the two work streams and draft reports and hence a lack of clarity as to whether all allegations have been dealt with;

i. Original departmental files are held within internal audit on some of the grant applicants but not on others making it difficult to determine what evidence is held relating to those applicants.

[REDACTED]



MERSEYSIDE
POLICE

→ Gargan

G. Burgess, Esq.,
Wirral Borough Council,
Wallasey Town Hall,
Brighton Street,
Wallasey,
Wirral.
CH44 8ED

Our Ref.

Your ref.

23rd April, 2014

CHIEF EXECUTIVE
28 APR 2014

Dear *Mr. Burgess*,

Wirral Borough Council Referral - Enterprise Solutions and the Intensive Start Up Scheme

I write in order to provide you with an update in terms of the complaint made to Merseyside Police in relation to allegations of fraud identified by Independent Auditors, Grant Thornton, following a review of the Intensive Start Up Scheme, managed by Enterprise Solutions.

Based on the information available, Merseyside Police have conducted a proportionate investigation in order to identify criminal activity and secondly to assess the viability of prosecuting those responsible, should criminal behaviour be exposed.

This investigation has revealed no clear evidence of criminality. Furthermore, it has highlighted a distinct lack of, what would be described as, key and significant evidence in the form of the Customer Relationship Management System (C.R.M.S.). The absence of this material would make an investigation into these matters extremely difficult and it has to be said that professional judgement would suggest any prosecution would be flawed from the outset.

It is, therefore, with regret that in the absence of any further information, no further action will be taken in respect of this case. I would, however, like to take this opportunity to thank you for all your openness and assistance during this enquiry.

Please do not hesitate to contact me should you have any questions in this regard.

Yours sincerely,

Richard Carr
Detective Superintendent
Matrix Serious and Organised Crime

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BIG

The BIG process

- 1.1 Council of 2nd March 2009 agreed a £50,000 grant programme, along with £400,000 of Working Wirral funding, to be made available 'for one year to give immediate support to previously successful micro businesses employing 10 or fewer employees who now face difficulties as a result of the credit crunch'¹.
- 1.2 The grant programme was referred to as the Business Investment Grant (BIG) Fund or BIG Support Grant.
- 1.3 A Cabinet decision of 23rd February 2009² had targeted the creation of new employment opportunities as the main aim of the fund. A Cabinet decision of 19th March 2009³ widened this to include supporting the sustainability of the business.
- 1.4 The BIG fund was a capital investment programme aimed at supporting companies who, during the economic downturn, had experienced problems in securing capital investment. It was hoped that, through the availability of this funding from the Council, this would encourage financial and other institutions to invest in Wirral businesses.
- 1.5 The funding available ranged from £4,000 to a maximum of £20,000 per project.
- 1.6 Businesses prepared a BIG application with the support of Enterprise Solutions (NW) Limited.
- 1.7 For each application, the Chief Accountant of the Council's Finance Department reviewed the financial information submitted and provided Invest Wirral with a memorandum with comments on the application and financial information.
- 1.8 Council officers, taking account of the Chief Accountant's comments, prepared a BIG Appraisal form which was then circulated to the BIG Panel to decide whether to accept the application. If the panel agreed the recommendation to approve an application, a report was presented to the relevant cabinet member for them to authorise.
- 1.9 The panel was made up of council officers, members of Business Link, bank representatives and representatives of the local business community.

¹ 'Business Support – Response to the Current Economic Climate' p11 para. 4.1(b). Website link: <http://democracy.wirral.gov.uk/ieListDocuments.aspx?CIId=121&MIId=357>

² Website link: <http://democracy.wirral.gov.uk/ieListDocuments.aspx?CIId=121&MIId=356>

³ Website link: <http://democracy.wirral.gov.uk/ieListDocuments.aspx?CIId=121&MIId=357>

Complainants

- 2.1 In June 2011 a former employee of Enterprise Solutions raised concerns about the BIG and ISUS grant programmes. The complainant was latterly joined by a second former employee in raising these concerns.
- 2.2 On 29th June 2011, a complainant emailed Invest Wirral and Enterprise Solutions with their concerns. On 30th June 2011, the complainant telephoned Invest Wirral to reiterate these concerns.
- 2.3 On 5th July 2011 Wirral Council's Director of Regeneration and representatives of Invest Wirral met the complainant to discuss the issues raised. Following this meeting, the matter was raised with NWDA.
- 2.4 A summary of the complainants' allegations is included in Grant Thornton's final report documentation.
- 2.5 On 12th August 2011 these allegations were reported to internal audit, and an investigation was commenced into the issues raised, latterly conducted by the Council's Chief Internal Auditor.

Review of Internal Audit draft reports

- 3.1 Following the decision of the Council's Chief Internal Auditor to retire, the Council's Chief Executive requested that the Interim Director of Finance review the reports in their draft form.
- 3.2 The Interim Director of Finance reported that the draft BIG report would not stand up to an external review of the working papers and supporting evidence.
- 3.3 The draft internal audit reports were not made publicly available at this point in order not to prejudice any possible future investigations into the complainants' concerns, not, as has been suggested, because the reports were critical of council officers.
- 3.4 The Interim Director of Finance recommended that an external firm of accountants or solicitors specialising in investigations for local authorities reviewed the evidence, allegations and investigations that had taken place.
- 3.5 In October 2012, following a tender process, Grant Thornton were appointed to deliver this work.

Grant Thornton's BIG report

- 4.1 Grant Thornton reviewed all of the BIG grants specifically highlighted by the complainants.
- 4.2 Of these, the only major finding was a £500 repeated entry in one company's accounts. As the provider (Enterprise Solutions) was the same as for the ISUS scheme, the report was referred to the Police for their consideration. A formal written complaint was made to the Police in the form of a statement, specifically in relation to ISUS, but which made reference to the BIG scheme.
- 4.3 Following receipt of the external investigator's reports on 7th March 2013 and after a period of verification and fact checking, Wirral Council published Grant Thornton's summary of its report into BIG as a news story on its website⁴.
- 4.4 On 23rd April 2014 the Police wrote to the Council advising that no action was to be taken following receipt of Grant Thornton's draft reports, commenting on the Council's openness and assistance during the enquiry. The Council reported the Police response to the external investigator.
- 4.5 The finalised report was received by Wirral Council on 2nd May 2014.
- 4.6 The key findings of the BIG report relating to Wirral Council were:
 - No concerns were identified regarding the integrity or honesty of any Council employees⁵.
 - The external investigators had free access to all information and materials held by Wirral Council, and to all employees of Wirral Council and Invest Wirral⁶.
 - Wirral Council provided a Service Level Agreement for Enterprise Solutions to offer specialist business support, but Grant Thornton says it understands that this was never signed⁷.
 - Grant Thornton recommended that Wirral Council should review the criteria used to consider current and future grant applications⁸.
 - The investigator notes that how the BIG Panel was to make its decisions was not reflected in written terms of reference⁹.

⁴ Since December 2012, news items on the Wirral Council website are automatically deleted after 6 months to save space. This news item has since been deleted.

⁵ BIG Report – Introduction p2 para. 1.12

⁶ BIG Report – Introduction p2 para. 1.12

⁷ BIG Report Executive Summary p3 para. 1.16

⁸ BIG Report – Recommendations p56 para. 7.7

⁹ BIG Report – Recommendations p56 para. 7.9

- The investigator was unable to find documentary evidence of any questions regarding the solvency of the applicants being raised during the application process or discussed by the BIG panel¹⁰.

¹⁰ BIG Report – Executive Summary p6 para. 2.11

Conclusion

- 5.1 The external investigator identified issues around the way applications were processed for the BIG panel, mostly surrounding the depth of analysis provided to BIG panel members.
- 5.2 Grant schemes will always contain judgements that are inherently subjective, and, as noted by the investigator, their report makes no claim to review the success of the scheme in hindsight. The report is restricted to looking at 6 applications, all supplied to the investigator by the complainant who had helped to develop them for Enterprise Solutions.
- 5.3 Over 40 companies received BIG grants under the scheme, of which the vast majority were still trading as of July 2014.
- 5.4 Of particular importance is the fact that, of the small number of applications discussed in the external investigator's report, as of July 2014, the majority are still trading.
- 5.5 By any account therefore, the BIG scheme has had a positive effect on Wirral's economy and business community, creating and safeguarding jobs and, in most cases, providing businesses with the resources to expand their activities.

Notes on Redaction

- 6.1 The reports were redacted using the following criteria:
- 6.2 It is widely reported that the company at the centre of these investigations was Enterprise Solutions Limited (also trading as Wirral Biz). This is clear from Council documentation including committee reports and other documentation that is available to the public through our normal disclosure policy.
- 6.3 As such no redaction has been undertaken in respect of Enterprise Solutions or its directors as this information is publicly available.
- 6.4 The Council has a policy in relation to disclosure of officer's names and where council officers may have been named within the reports this policy, based on pay scale and position, has been applied to protect their identity.
- 6.5 Similar protection has been applied to individuals employed either directly or as consultants by Enterprise Solutions – and therefore no individual engaged by Enterprise Solutions has been named.
- 6.6 Information that has been considered commercially sensitive has also been redacted. Whilst a number of the companies referred to in these reports are Limited companies and as such have their accounts on record at Companies House, there are instances where financial information is far greater and more detailed than that filed at Companies House and as such all financial information has been withheld from publication.
- 6.7 There are documents, specifically contract documents within the Appendices, that Wirral Council are not the publishers and as such may also be deemed commercially sensitive.

ISUS

Background

- 1.1 On 1st April 2009 the North West Development Agency (NWDA) introduced a Regional Business Start Programme called Intensive Start-Up Support (ISUS).
- 1.2 Funding was made available by the NWDA and European Regional Development Funding (ERDF) to support the ISUS programme.
- 1.3 NWDA employed A4e to act as managing agents and auditors to the ISUS programme. A4e managed the ISUS programme on behalf of NWDA.
- 1.4 The NWDA undertook a tendering exercise to invite suppliers to tender to deliver its programme for the North West. Successful suppliers were then invited to become members of an approved panel.
- 1.5 Local authorities like Wirral were selected as delivery partners. Wirral undertook its own mini tender exercise from the approved suppliers on the NWDA list to deliver the scheme. The Request for Tender was drafted with the template used by the NWDA.
- 1.6 Following evaluation of the submitted tender documents, Enterprise Solutions was awarded the contract, having scored highest.
- 1.7 The NWDA set a target of 676 new business start-ups for the three-year programme, and provided an allocation of £1,593,863 to achieve this and other agreed outputs.
- 1.8 Wirral Council set its own, increased target of 900 new business start-ups, having identified this number as being necessary to assist in closing Wirral's enterprise gap, as identified in the Regional Economic Strategy.
- 1.9 The authority therefore agreed to provide £386,137 of Wirral's Working Neighbourhoods funding to supplement NWDA's allocation.
- 1.10 Before ISUS, Wirral Council already had its own business start programme, offering a wider range of support. In its tender, Wirral specified that it might wish to procure these additional services because of their proven benefits to the programme.
- 1.11 This additional work was awarded to Enterprise Solutions (NW) Limited in December 2009¹ and was formalised by a separate agreement between the Council and Enterprise Solutions (NW) Limited.

¹ Approved by Cabinet 26th November 2009. Website link:
<http://democracy.wirral.gov.uk/ieListDocuments.aspx?CIId=121&MIId=732>

- 1.12 To maximise the amount of support that could be given to businesses from the Council's funding allocation, grants were restricted to £500 per business.
- 1.13 Enterprise Solutions (NW) Limited employed a number of Business Advisors to deliver elements of the programme.

Complainants

- 2.1 In June 2011 a former employee of Enterprise Solutions raised concerns about the BIG and ISUS grant programmes. The complainant was latterly joined by a second former employee in raising concerns.
- 2.2 On 29th June 2011, a complainant emailed Invest Wirral and Enterprise Solutions with their concerns. On 30th June 2011, the complainant telephoned Invest Wirral to reiterate these concerns.
- 2.3 On 5th July 2011 Wirral Council's Director of Regeneration and representatives of Invest Wirral met the complainant to discuss the issues raised. Following this meeting, the matter was raised with NWDA.
- 2.4 A summary of the complainants' allegations is included in Grant Thornton's final report documentation.
- 2.5 On 12th August 2011 these allegations were reported to internal audit, and an investigation was commenced into the issues raised, latterly conducted by the Council's Chief Internal Auditor.

Review of Internal Audit draft reports

- 3.1 Following the decision of the Council's Chief Internal Auditor to retire Wirral Council's Chief Executive requested that the Interim Director of Finance review the reports in their current, draft form.
- 3.2 The Interim Director of Finance reported that the draft Internal Audit BIG report would not stand up to an external review of the working papers and supporting evidence, and that this would also apply to the draft Internal Audit ISUS report.
- 3.3 The draft Internal Audit reports were not made publicly available at this point in order not to prejudice any possible future investigations into the complainants' concerns, not, as has been suggested, because the reports were critical of council officers.
- 3.4 The Interim Director of Finance recommended that an external firm of accountants or solicitors specialising in investigations for local authorities reviewed the evidence, allegations and investigations that had taken place.
- 3.5 In October 2012, following a tender process, Grant Thornton were appointed to deliver this work.

Grant Thornton's ISUS report

- 4.1 The ISUS report was received by Wirral Council in draft form in March 2013.
- 4.2 While there was no suggestion of illegality or wrongdoing by Council officers, Grant Thornton's report strongly discouraged the Council from sharing its findings with Enterprise Solutions if it concluded that further investigation was applicable².
- 4.3 Grant Thornton recommended that the Council considered referring the matter to the Police³.
- 4.4 Upon receipt of the external investigator's draft reports, and recognising that publication could have had the potential effect of prejudicing any further investigation by other parties⁴, the Leader of the Council announced that he had referred the ISUS report to the Department of Business, Innovation and Skills and to the Police, for them to decide whether to investigate other parties further.
- 4.5 On 23rd April 2014 the Police wrote to the Council advising that no action was to be taken following receipt of Grant Thornton's draft reports, commenting on the Council's openness and assistance during the enquiry. The Council reported the Police response to the external investigator.
- 4.6 The finalised report was received by Wirral Council on 2nd May 2014.
- 4.7 The key findings of the ISUS report relating to Wirral Council were:
 - No concerns were identified regarding the integrity or honesty of any Council employees⁵.
 - The investigator was given the access it required to Wirral Council and Invest Wirral employees⁶, as well as to all information and documents held by the Council.
 - Wirral Council and Grant Thornton had both experienced difficulties in accessing Enterprise Solutions records⁷.
 - Wirral Council could not be expected to 'audit the auditors' i.e. to look for weaknesses in A4e's work⁸.
 - The investigator says that, by deciding to undertake monitoring reviews of the businesses supported when the ISUS programme ended (as

² ISUS Report p83 para. 9.12

³ p83 para. 9.18

⁴ p83 para. 9.20

⁵ ISUS Summary Report p2 para. 1.13

⁶ ISUS Summary Report p2 para. 1.13

⁷ ISUS Report p4 para. 2.11

⁸ ISUS Summary Report p15 para. 2.51

was the responsibility of Enterprise Solutions) the Council has allowed Enterprise Solutions to avoid fulfilling one of its contractual obligations⁹.

- Because of this, a significant amount of public money (in the form of Council officers' time) has been wasted on a 'basic point of contract compliance'¹⁰.
- However, Grant Thornton said it could not reach a definitive conclusion as to whether the anomalies described in their report resulted in overpayment¹¹.
- The report suggests that Wirral Council should obtain legal advice to quantify any loss it may have suffered¹².
- Grant Thornton recommends that this advice should be sought against a backdrop in which one litigant (ISUS 1) has concluded that costly litigation against Enterprise Solutions should be avoided on the understanding that Enterprise Solutions has few resources with which to compensate him¹³.
- Given the complexity of this matter and key evidence such as the complete CRM database not being available, the Council's Head of Legal and Member Services has recommended that action to recover specific sums should only be considered if the requisite evidential test is met. The litigation risk is a material and significant consideration at this time given the difficulties in securing all the relevant evidence.
- Grant Thornton's report asks if the Council should consider whether the sample reviewed was sufficiently large and/or representative to merit litigation or Police investigation¹⁴.
- They also recommend that Wirral Council continues to search for a full set of contractual information and the CRM database¹⁵.
- The report also recommends that Wirral creates a repository of signed contracts¹⁶.

⁹ ISUS Report p10 para. 3.22

¹⁰ p26 para. 4.56

¹¹ p34 para. 5.4

¹² p82 para. 9.7

¹³ p82 para. 9.10

¹⁴ p15 para. 3.52

¹⁵ p8 para. 3.13

¹⁶ p85-86 para. 9.34

Conclusion

- 5.1 The ISUS scheme was set up and administered by the NWDA, with A4e as managers and auditors, with some funding support provided by Wirral Council to meet the local authority's economic objectives.
- 5.2 The scheme ran from October 1st 2009 to December 31st 2011.
- 5.3 The recorded outputs from the ISUS scheme met the initial target set by NWDA by achieving 877 new business starts (initial target was 676). This fell slightly short of Wirral Council's target of 900 new business starts.
- 5.4 The scheme created 1,095 new jobs, short of the NWDA target of 1,216.
- 5.5 For both these outputs it should be noted that the dissolution of the NWDA meant that the scheme did not run its full course.
- 5.6 At the end of 12 months of the scheme, 94% of new businesses were still trading, which surpassed the 93% target set by the NWDA.
- 5.7 The ISUS scheme can thereby be said to have been a mostly successful funding programme, which had significant positive impacts on Wirral's economy and business environment.

Notes on Redaction

- 6.1 The reports were redacted using the following criteria:
- 6.2 It is widely reported that the company at the centre of these investigations was Enterprise Solutions Limited (also trading as Wirral Biz). This is clear from Council documentation including committee reports and other documentation that is available to the public through our normal disclosure policy.
- 6.3 As such no redaction has been undertaken in respect of Enterprise Solutions or its directors as this information is publicly available.
- 6.4 The Council has a policy in relation to disclosure of officer's names and where council officers may have been named within the reports this policy, based on pay scale and position, has been applied to protect their identity.
- 6.5 Similar protection has been applied to individuals employed either directly or as consultants by Enterprise Solutions – and therefore no individual engaged by Enterprise Solutions has been named.
- 6.6 Information that has been considered commercially sensitive has also been redacted. Whilst a number of the companies referred to in these reports are Limited companies and as such have their accounts on record at Companies House, there are instances where financial information is far greater and more detailed than that filed at Companies House and as such all financial information has been withheld from publication.
- 6.7 There are documents, specifically contract documents within the Appendices, that Wirral Council are not the publishers and as such may also be deemed commercially sensitive.



Grant Thornton

BUSINESS INVESTMENT GRANTS

**SUBJECT TO AN EXEMPTION UNDER SECTION 30 OF THE
FREEDOM OF INFORMATION ACT**

dated 2 May 2014

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1 INTRODUCTION

- 1.1 We have been instructed by Wirral Borough Council (WBC) to produce a summary of our report dated 2 May 2014. In order to understand the detail behind this summary, it would be necessary to read the whole of our report dated 2 May 2014.

INSTRUCTIONS

- 1.2 Grant Thornton UK LLP have been instructed by WBC to undertake the work set out in WBC's request for a quotation, dated 5 October 2012 (the RFQ). The RFQ refers to a contract issued by WBC for the:

"provision of assessment and advice services in relation to the award of Business Investment Grants (BIG) and the Council's Intensive Start Up Service (ISUS)".

- 1.3 In reviewing BIG and ISUS we have established that while these were both associated with a sub-contractor called Enterprise Solutions (NW) Ltd (Enterprise Solutions), WBC had separate contracts with Enterprise Solutions in relation to the BIG and ISUS programmes. This summary does not address the ISUS programme as that is the subject of a separate report, and summary submitted to WBC.

- 1.4 The RFQ explained that:

"A number of allegations were made in respect of both schemes and continuing allegations and additional supporting information continue to be provided up to the present."

- 1.5 The RFQ explained that investigations had been commenced by two former WBC employees and that WBC had been seeking to appoint a firm of accountants to complete the investigation. In our response to the RFQ, we recommended that the successful applicant should meet with the people who had made the allegations before reviewing documents collated as part of WBC's investigation.

- 1.6 Having met with the people who had made the allegations, we produced an enquiry log which we sent to those people we had met for their review. That part of the enquiry log which is associated with BIG is attached as Appendix 1 to our report dated 2 May 2014. The remaining parts of the log are attached to a separate report which addresses ISUS and are not referred to in this summary.

- 1.7 If further information is produced and brought to our attention after service of this summary, we reserve the right to revise our opinions as appropriate.
- 1.8 This work does not constitute an audit performed in accordance with Auditing Standards.
- 1.9 Except to the extent set out in this summary, we have relied upon the documents and information provided to us as being accurate and genuine. To the extent that any statements we have relied upon are not established as accurate, it may be necessary to review our conclusions.
- 1.10 No responsibility or liability for this summary, or the report dated 2 May 2014 is accepted by Grant Thornton UK LLP or its staff to anyone other than WBC. This summary should be read in conjunction with a more detailed report, dated 2 May 2014.
- 1.11 We have finalised this summary, and our report, based on advice from WBC on 1 May 2014 that no action is to be taken by the police in this matter. No further work has been undertaken since our report was issued in draft form on 5 June 2013.

RESTRICTION ON CIRCULATION

- 1.12 This summary is confidential and should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent. Such consent will only be given after full consideration of all the circumstances at the time.
- 1.13 It should also be noted that this summary addresses concerns we have regarding one of the BIG applications we have reviewed and whether the information associated with it had been given in good faith. We have not identified concerns regarding the integrity or honesty of any WBC employees. We also note that we have been given the access we have required to WBC and Invest Wirral employees.
- 1.14 However, this summary is likely to be exempt in whole or in part from disclosure under the Freedom of Information Act, attracting an exemption under section 30. Careful consideration should, therefore, be given before responding to a request for access to this summary under the Freedom of Information Act. This is particularly relevant to the comments included from paragraph 2.36.

DISCLOSURES OF INTEREST

- 1.15 Since accepting this instruction, Grant Thornton UK LLP has become the external auditor to WBC. This summary and the underlying review has been undertaken by members of our Forensic and Investigation Services team who are not involved in that audit work.

FORMS OF REPORT

- 1.16 For your convenience, this summary may have been made available to recipients in electronic as well as hard copy format. Multiple copies and versions of this summary may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.

LIMITING FACTOR - ACCESS TO ENTERPRISE SOLUTIONS

- 1.17 We attached a copy of an unsigned "service level agreement for the provision of specialist business support between Invest Wirral and Wirral Biz" (the SLA), as Document 1 to our report dated 2 May 2014. We understand that Enterprise Solutions were commonly known as "Wirral Biz" and also understand that the SLA was never signed. We understand that Enterprise Solutions does not recognise the SLA.

- 1.18 In the absence of better information, we have relied on it as a final and contractually binding document.

- 1.19 Document 1 describes the services which Enterprise Solutions/Wirral Biz were due to provide under the BIG programme. They include advice and assistance concerning the preparation of business plans and "Wirral Council Grant Applications". The SLA explained that:

"Wirral Biz will work alongside referred businesses offering support under one of the headings listed above [such as support with business plans and WBC grant applications] for a maximum three days per company (£300 per day)."

- 1.20 The SLA does not specifically refer to audit rights and access to records, but WBC wrote to Enterprise Solutions on 26 November 2012 asking that we be given access to the accounts and records associated with the SLA.

- 1.21 Enterprise Solutions wrote to us on 13 December 2012 and stated:

"this company has nothing to hide in relation to its involvement in any of the above programmes [one of which was the BIG programme] on which it provided services. We are therefore prepared to grant access on the basis requested, on the understanding that your costs of the exercise are to be borne by the Council."

- 1.22 Contrary to the commitments made by Enterprise Solutions, we have not been given access to documentation retained by the company concerning the services it provided under the BIG programme and have, therefore, been unable to discuss these with Enterprise Solutions. This has limited the depth of our findings as we cannot comment on the way in which Enterprise Solutions' own records might help to explain the programme and the way in which the documentation submitted by applicants evolved. This is of particular relevance to an application from an applicant we have referred to as BIG6.
- 1.23 We would have discussed our findings in draft form with Enterprise Solutions before preparing this summary. Enterprise Solutions' unwillingness to cooperate with us has meant that we have been unable to do so. Should we be given access at a later date then it may be necessary to amend our findings.

HINDSIGHT

- 1.24 It might be said that the best way to assess the applications described in this summary would be with reference to hindsight, for example, is the applicant still trading etc. However, hindsight would not have been available to the BIG Applicants, or WBC staff and we have not, therefore, applied hindsight or reviewed the trading history of applicants after their BIG had been provided.

2 EXECUTIVE SUMMARY

- 2.1 Document 2 (a report titled "Invest Wirral – Big Support") to our report dated 2 May 2014 explained that funds applied to the Business Investment Grant (BIG) programme had been intended to:

"support SME's [sic] with potential for growth in Wirral, but importantly, will also support the sustaining of companies who may be having difficulty during this downturn."

- 2.2 The same document also explained that grants were anticipated to range from £4,000 to £20,000.
- 2.3 We have reviewed six BIG Applications in response to the allegations set out in the enquiry log attached as Appendix 1 to our report dated 2 May 2014. These applications were brought to our attention and we do not know a) whether they are representative of the wider population of BIG Applications or b) whether the anomalies we have identified might also apply to the wider population. The six BIG Applications we have reviewed are referred to in this summary as BIG1 to BIG6.
- 2.4 There are anomalies within each of the BIG Applications we have reviewed as summarised from paragraphs 2.22, 2.32 and 2.36.
- 2.5 In large part, the anomalies may have arisen because of ambiguities and inconsistencies in the documentation given both to WBC's cabinet and a panel of people who were asked to review BIG Applications (the BIG Panel). It is also likely to be because the majority of the BIG Applications we have reviewed relied on a cashflow forecasting model which had been supplied by Enterprise Solutions¹ which also has its limitations.
- 2.6 As we understand it, BIG Applications were subject to review which sometimes resulted in amended applications being submitted. It is important to note, therefore, that had the anomalies been identified before the corresponding BIG had been approved, they might have been resolved and the revised application might have succeeded.

¹ or, more particularly, a sub-contractor working on behalf of Enterprise Solutions

- 2.7 The anomalies discussed in our report dated 2 May 2014 would not, in isolation², have been sufficient to conclude that an applicant would necessarily have been precluded from a BIG. However, they might have resulted in the submission of improved financial information which might have enabled WBC to make a better informed decision or they might have resulted in the application being rejected.
- 2.8 It is also important to note that, with one possible exception (BIG6), the BIG Applicants themselves are not subject to criticism in this summary. This is because, with one possible exception, the BIG Applicants appear to have made transparent applications which were subject to review and approval by WBC. It is also important to note that Enterprise Solutions was not directly responsible for the BIG applications and had not, for example, been instructed to audit or otherwise corroborate the contents of BIG applications.

AMBIGUITIES AND INCONSISTENCIES

SOLVENCY

- 2.9 Document 2 to our report dated 2 May 2014 sets out a range of criteria which BIG applicants needed to fulfil in order for their application to succeed. This included the requirement that applicants needed to be "solvent". This term does not appear to have been defined elsewhere and is a very broad term which is capable of interpretation in more than one way.
- 2.10 For the purpose of this summary, we have considered solvency within the context of the Insolvency Act. This refers to two tests:
- balance sheet insolvency; and
 - cashflow insolvency, associated with the inability to pay debts as they fall due.
- 2.11 Both of these tests, in particular whether a company is able to pay its debts as they fall due, involve an element of judgement.
- 2.12 We have spoken to the WBC employee who was responsible for drafting the BIG criteria and he has advised that he fails to see how Grant Thornton can decide if any of the applicants were insolvent, particularly given (in his view) that all were trading at least two years further on. Further, he has advised that should a question regarding solvency arise by looking at accounts or forecasts, then the BIG Panel would need to be assured that there was no other funding available to stop insolvency, and that 'it is not as straightforward as making a paper based determination'.

² with one possible exception (BIG4)

- 2.13 As noted at paragraph 1.24, hindsight would not have been available to the BIG Applicants, or WBC and we have not, therefore, applied hindsight or reviewed the trading history of applicants after their BIG had been provided, or corroborated the following comments provided by WBC who have advised us that:

"The purpose of the BIG fund was to be a source of financial investment to local companies to secure monies for additional and future investment. Of those companies considered in this report, it is important to note that only one of those companies is no longer actively trading and that all were trading at the time of application and award of the grants from the BIG fund.

It cannot be ignored that the support provided to these companies under the BIG fund scheme has helped to achieve the objectives of the scheme and contributed positively to the local economy.

The support provided to the companies referred to below through the BIG fund scheme resulted in all the projects securing and/or creating jobs – and all the companies continuing to be important employers within the Borough.

(Company 1)

Company 1 were incorporated in June 1993 and presented an application for funding from the BIG fund which was approved in August 2010. The company continued to trade until earlier this year when in March 2013 it went into administration. Despite its current status of the company, it traded for two and a half years after the award thereby securing jobs and employment in the area.

(Company 2)

Company 2 is a well established business operating as a sole trader having established itself in the early eighties and had been trading some twenty five years at the time of its application for BIG funding. The company's proposal was agreed in January 2010 and was awarded later in March 2010. The business still operates today providing revenue and employment to the local economy.

(Company 3)

Company 3 was incorporated in 2003 and continues to successfully trade today following three staged awards during 2010 having successfully had their project agreed in December 2009 and since met their objectives over the last three years.

(Company 4)

Company 4 was incorporated in December 2008 and was a former recipient of funding from this scheme. Funding for a new project was approved in October 2010. The project was successful and the company continues to trade.

(Company 5)

Company 5 was incorporated in June 2009 but has since ceased to trade (due to non-financial reasons). However, a new company was formed with the project obligations, assets and workforce transferring to the new company. It was not until September 2012, some twenty six months after the BIG award, that Company 5 was dissolved. Despite the trading position of the Company 5, the BIG fund award helped achieve a positive and successful outcome for the new company.

(Company 6)

Company 6 was incorporated in December 2009 and having applied for assistance through BIG, which was agreed in May 2010, continues to trade today following five staged payments during 2010 and 2011. "

- 2.14 We have reviewed the accounts and forecasts of a selection of BIG applicants, as identified to us during the meeting described at paragraph 1.6, and our findings are discussed in more detail in our report dated 2 May 2014. Our review has identified a number of matters which might have been reported to the BIG Panel regarding the solvency of five of the six applicants we have reviewed, and we have been unable to find any documentary evidence of these questions being raised during the appraisal process or discussed by the BIG Panel.

Model provided by Enterprise Solutions

- 2.15 All but one of the BIG Applications we have reviewed have used a version of a forecasting model supplied by Enterprise Solutions.
- 2.16 The first tab of the model pertaining to one of the BIG Applications (BIG4) stated:

"This Excel Workbook is intended to help you compile a realistic Financial Forecast for your proposed business start-up [our emphasis]."

- 2.17 Companies House records show that this company was incorporated almost two years before the date of the corresponding BIG Application. BIG4 should not, therefore, have been treated as a "proposed" business start-up and should have been asked to use a more appropriate model.
- 2.18 In speaking to the directors of BIG4, they have told us that they initially submitted a forecast using the same approach which they had adopted when making an earlier successful application for a BIG, but were asked to re-submit the forecast using the Enterprise Solutions model.
- 2.19 Furthermore, the underlying assumptions within the forecasting model used by many of the BIG Applicants were inherently optimistic as it assumed that the applicant would incur none of the following which would have resulted in reduced profits and cashflow:

- no bad debts;
- no stock loss/wastage.

2.20 Furthermore, the model appears to have assumed that creditors would either have been paid during the month in which the sale of the corresponding item of stock (or similar) had taken place or one month in arrears. This would not necessarily have applied to businesses which:

- had a lead time of more than one month to convert stock into sales, ie the forecasts linked creditor payments with sales, rather than with the purchase of goods and services; or
- new or financially distressed businesses which might have been expected to pay in advance for goods and services.

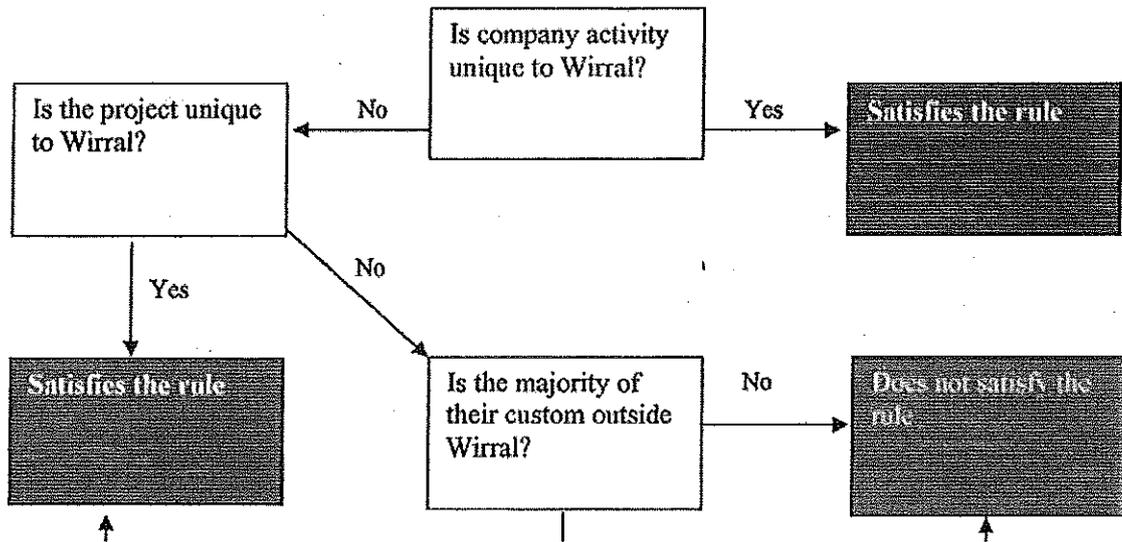
2.21 In addition, without manual amendment, the model took no account of the impact that existing liabilities (such as VAT creditors) might have had on future cashflow and the corresponding applicant's ability to pay its debts as they fell due.

THE LOCAL COMPETITION TEST, AND BIG4

2.22 The criteria which should have been used to consider BIG applicants, as submitted to WBC's cabinet stated that the:

"project must pass the "local competition test" in that their sales are not primarily to a local market or be primarily at the expense of local businesses."

2.23 The test required that sales were not primarily to a local market. In order to help a panel of people responsible for reviewing BIG Applications, WBC produced a flow chart which summarised the "local competition test" as follows:



2.24 The extract here shows that the test would be passed if the company or its project was unique to the Wirral. Although the flow chart made reference to the location in which sales had been made, the location of the sales was not a relevant consideration if a conclusion had already been reached that either the "company's activity" or the "project" were unique to the Wirral. Thus, the flow chart does not reflect the wording per the criteria submitted to WBC's cabinet.

2.25 Based on the contents of the flowchart, BIG4's application satisfied the local competition rule because its project appears to have been "unique". However, the flowchart did not go on to ask where the sales were primarily to be made, one of the criteria set before WBC's cabinet.

2.26 We have spoken to the WBC employee who was responsible for drafting both the BIG criteria and the flowchart discussed above. He has advised that BIG4's application did not fail the local competition test as its project was unique to Wirral. We note that this is on the basis of the flow chart discussed at paragraph 2.23, which does not reflect the wording of the criteria submitted to WBC's cabinet as discussed at paragraph 2.22.

THE DECISION MAKING PROCESS

- 2.27 The flowchart attached as Document 4 to our report dated 2 May 2014 indicates that the panel set up to consider BIGs could either:
- "reject an application"; or
 - "agree with the positive recommendation of the Appraiser and confirm award of the grant".
- 2.28 In our view, BIG applications submitted by BIG1, BIG2, BIG3, BIG5, and BIG6 contained what appear to have been financial anomalies. These apparent anomalies were not explained to the corresponding BIG Panels.
- 2.29 The BIG Panel was made up of a combination of people employed by WBC and from third party organisations. With reference to the BIG applications we have reviewed, only one "third party" panellist sat on all of the applications listed within paragraph 2.28. Having discussed some of the anomalies with that panellist, we understand that had he been made aware of the anomalies we discussed with him, he would not have supported the corresponding application without additional information or before the apparent anomalies had been resolved.
- 2.30 It is uncertain what impact this might have had on the applications. This is because, although we have seen minutes of BIG Panel meetings which reflect practice, we have seen no guidance documentation setting out whether the BIG Panel's decisions were to be taken on a majority basis or on the basis of a unanimous decision.
- 2.31 With reference to "practice", BIG Panel meeting notes dated 21 April 2011 indicate that on one occasion (not associated with the applications listed at paragraph 2.28) an application had succeeded even though one of the BIG panellists had felt that the application should have been rejected. On at least one occasion, therefore, a BIG Application succeeded despite one panellist taking the view that the application should have been rejected. However, this was not reflected in written terms of reference.

INDIVIDUAL APPLICATIONS SUBJECT TO REVIEW

BIG1, BIG2, BIG3, BIG5

- 2.32 In reviewing these applications, we found significant anomalies which were not brought to the BIG Panel's attention.

2.33 For example, one or more of these four BIG Applicants submitted:

- cash flow forecasts which did not appear to take account of existing liabilities, such as VAT which would, had they been reflected in the cash flow forecasts raised doubt about the applicant's ability to pay debts as they fell due;
- a balance sheet, where an opening balance did not match the corresponding closing balance from the previous period;
- accounts which indicate that the applicant had paid unlawful dividends (ie contrary to the Companies Act);
- forecasts which assumed that turnover and profitability would grow quickly despite a recent history of declining turnover and losses.

2.34 Each of these anomalies might have been addressed and explanations sought, and/or revised and more prudent forecasts prepared for the benefit of the BIG Panel. It is possible that the BIG Applicants we have considered might have:

- provided more complete or more accurate financial information resulting, ultimately, in a successful application; or
- been unable to provide better financial information resulting, ultimately, in the application being declined.

2.35 It is difficult to second guess what impact this information might have had on the BIG Panel. This is particularly true given that the judgement as to whether an application should have succeeded would not have been easy given that BIGs were intended to support businesses which had been unable to locate finance from commercial sources, such as high street banks.

BIG6

2.36 BIG6 provided WBC with two BIG Applications and appear to have provided two sets of accounts in support of those applications with differing year ends.

2.37 The two sets of accounts are almost identical, for example, referring to exactly the same levels of turnover and net profit.

2.38 We also note that both sets of accounts include a £500 grant which appears to have been provided by WBC. Based on the information available to us, it seems that WBC might have recognised that the grant should not have been accounted for in both sets of accounts as it was provided around four months before one of the two accounting periods had begun.

- 2.39 We met with BIG6 and discussed the corresponding application. As things stand, it is unclear, whether BIG6's declaration that the information provided in the corresponding application was "correct and given in good faith" had been appropriate.

RECOMMENDATIONS

- 2.40 We have made detailed recommendations in our report, dated 2 May 2014. These include recommendations that WBC considers whether it:

- can, or should, claw back the BIG given to BIG6; and
- should refer BIG6's application to the Police.

- 2.41 We have recommended that the Police should be asked to confirm that sharing our present findings with any third parties would not jeopardise any actual or potential Police investigation. We have recommended to WBC that WBC ensure that the Police are satisfied that either we and/or WBC are able to share these findings with any third parties before proceeding further. To do otherwise might jeopardise any subsequent police investigation, if any such investigation was deemed necessary.

- 2.42 It should be noted that, if WBC decide to refer BIG6's application to the Police, it should delay any efforts to claw back the grant until the Police have given the matter due consideration.

- 2.43 It is also very important that WBC:

- reviews the criteria it uses to review grant and similar applications to avoid ambiguities in the corresponding criteria wherever possible; and
- ensures that where panels are used to review applications, the panellists are given written terms of reference.

Grant Thornton UK LLP

Grant Thornton UK LLP

Liverpool

2 May 2014



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