

## Findings of compliance inspections 2016/2017

### Frequency of recommendations by category

At the conclusion of each compliance review we issue a report which details our findings and where appropriate, makes recommendations for corrective actions. During 2016/2017 we issued 279 reports raising a total of 374 recommendations of which 122 (33%) were made to correct issues of non compliance and 252 (67%) guidance recommendations. Recommendations are categorised and ranked in order of frequency as detailed in the following table:

| Position                   | Change | Category   | No. of Recommendations | %            |
|----------------------------|--------|--|------------------------|--------------|
| 1                          | ↔      | Form 4 - inaccurate/non-reconciled or late                             | 61                     | 16.3         |
| 2                          | ↔      | Non compliant expenditure - spend outside of the prescribed period     | 40                     | 10.7         |
| 3                          | ↑      | Administration/Winding Up costs  | 30                     | 8.0          |
| 4                          | ↑      | Failure to complete Form 9   | 27                     | 7.2          |
| 5                          | ↓      | Project non compliance   | 24                     | 6.4          |
| 6                          | ↔      | Regulatory guidance required   | 21                     | 5.6          |
| 7                          | ↑      | Director/Main Contact updates  | 20                     | 5.3          |
| 8                          | ↓      | EB seeking voluntary revocation  | 18                     | 4.8          |
| 9                          | ↔      | Governance - lack of checks on excluded individuals                    | 15                     | 4.0          |
| 10                         | ↔      | Unspent funds  | 15                     | 4.0          |
| 11                         | ↑      | Failure to maintain records of expenditure                             | 12                     | 3.2          |
| 12                         | ↑      | Assets - recording & protection  | 9                      | 2.4          |
| 13                         | ↑      | Project file documentation   | 8                      | 2.1          |
| 14                         | ↑      | Governing document not adequate for LCF purposes i.e., no object match | 7                      | 1.9          |
| 15                         | ↔      | Reliance on one individual   | 6                      | 1.6          |
| 16                         | ↑      | Bank statements less than Form 4 closing balance                       | 5                      | 1.3          |
| 17                         | ↑      | Governing document changes not notified                                | 4                      | 1.1          |
| 18                         | ↑      | CTP compliance   | 3                      | 0.8          |
| 19                         | ↔      | Form 3 - late / inaccurate   | 3                      | 0.8          |
| 20                         | ↑      | Post project monitoring  | 3                      | 0.8          |
| 21                         | ↔      | CTP failure to maintain records  | 2                      | 0.5          |
| 22                         | ↑      | Contributions - failure to spend within 2 years                        | 1                      | 0.3          |
| 23                         | ↑      | Form 7 - late / inaccurate   | 1                      | 0.3          |
| 24                         | ↓      | Non compliant expenditure - spend before project approval granted      | 1                      | 0.3          |
| 25                         | ↔      | Other  | 38                     | 10.2         |
| <b>Total for 2016/2017</b> |        |  | <b>374</b>             | <b>100.0</b> |

## Analysis of recommendations made during 2016/2017:

Analysis of the recommendations raised during 2016/2017 shows that the most frequent issues identified are with EBs failing to correctly complete annual returns and spending LCF monies outside of the prescribed period.

Form 4 issues vary and cover most areas of the form however; a number of issues arise from EBs lack of understanding of fundamental issues such as the difference between a contribution and a transfer; and failing to limit the reporting of activity only to the required reporting period.

The introduction of a condition to restrict project expenditure to the timescales provided by EBs and approved by ENTRUST was introduced in April 2015 and it is of some concern that a significant number of EBs still do not have adequate procedures in place to monitor their project expenditure and ensure that LCF funds are spent within the approved timescales. Breaches tend to occur after the approved completion date. Our findings suggest that EBs are not allowing adequate time to complete projects or do not seek sufficient extensions where projects do over-run. Another significant factor is that many EBs do not actively monitor projects to ensure they will complete within the approved timescales.

In response to HMRC's advice to EBs to reduce administration costs to 7.5% of LCF expenditure announced in April 2016, an increased number of recommendations have been raised on this issue to assist EBs in achieving the required reduction in costs. Whilst most EBs were aware of the requirement to limit administration costs, a number of EBs were unclear about the levels of administration costs charged to LCF and also the elements that were included in the winding up costs of their organisation. A number of EBs, for example, had included day to day running costs in their winding up provision. Other EBs have also demonstrated a lack of understanding between EB running costs and project costs.

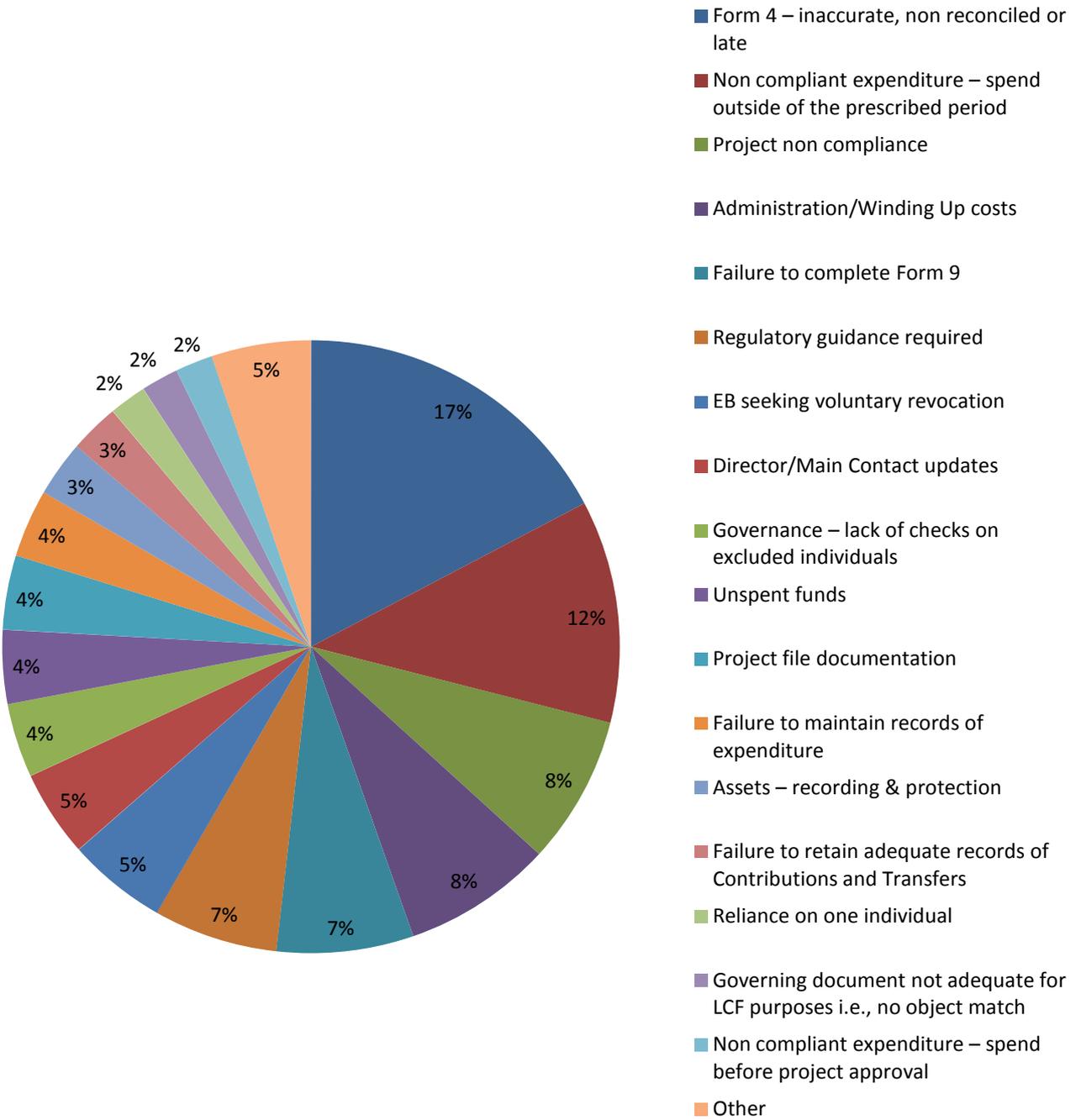
A number of EBs had failed to complete a Form 9 Completion Form for their projects which completed during the previous year. The project completion process was introduced during 2014/2015 and the number of EBs which still do not have adequate procedures in place to ensure projects are reported as complete is of some concern.

A number of projects found to be non compliant with the Regulations were typically due to either the project being no longer open to the general public, or spending of LCF funds on items that had not been approved by ENTRUST. In reviewing these cases, we have identified that in a number of cases, project EBs have approached their funding EB requesting funds for additional works or made changes to their projects which have been approved by the funder but these changes are not then notified to, or approved, by ENTRUST. These issues indicate a lack of understanding of the project approval process by both funding EBs and project EBs. We consider that funders could assist project EBs by reminding applicants of the requirements and confirming that additional works or costs have been approved by ENTRUST prior to funds being transferred.

Other recommendations have been made to address a wide range of issues with EBs. Some of the more typical issues have been a failure by EBs to maintain the records held by ENTRUST when changes to main contacts, Trustees or governing documents are made. With the closure of the LCF fund in Scotland, a number of recommendations have been made to advise EBs based in Scotland to apply for voluntary revocation. A number of recommendations have also been made regarding the quality of EB record keeping in areas such as expenditure, assets and CTP donors.

**Chart of compliance recommendations 2016/2017:**

**Compliance Recommendations 2016/2017**



## Summary of main findings

The highest proportion of recommendations raised during 2016/2017 were to correct inaccurate or incomplete Statutory Annual Returns submitted by EBs. The majority of recommendations made were to address the lack of project start and end dates. However a significant number of recommendations were also required due to EBs providing incorrect financial information. ENTRUST has published a How to Guide to assist EBs in completing the Annual Return which can be found on our [website](#).

Non compliant spending on projects outside of the prescribed period was the next most frequent issue identified at inspections. Guidance on delivering compliant projects has been issued to EBs and is available in the ENTRUST [Guidance Manual](#) section 5.4, Extending a Project.

In response to HMRC's advice to EBs to reduce administration costs to 7.5% of LCF expenditure announced in April 2016, an increased number of recommendations have been raised on this issue. A number of EBs were unclear about the levels of administration costs charged to LCF and how the amount set aside for the winding up of their organisation had been calculated. We have provided guidance to the EBs at our compliance inspections and also signposted the additional guidance on EB running costs which is available within section 3.10 of the ENTRUST [Guidance Manual](#).

We found that a number of EBs had failed to complete a Form 9 Completion Form for their projects which completed during the previous year. Our How to Guide to completing a Form 9 can be found on our [website](#).

A number of non compliant projects were typically due to either the project being no longer open to the general public, or spending of LCF funds had occurred on items that had not been approved by ENTRUST. In reviewing these cases, we have identified that in a number of cases, project EBs have approached their funding EB requesting funds for additional works or made changes to their projects which have been approved by the funder but these changes are not then notified to or approved by ENTRUST. We consider that funders could assist project EBs by ensuring that any material changes to approved projects such as additional works or costs are approved by ENTRUST prior to funds being transferred. We are working with the EBs to bring these projects back into compliant use. ENTRUST guidance relating to How to Run a Project is shown here in section 5 of our [Guidance Manual](#).

## Recommended actions to address compliance findings:

Recommended corrective actions to the five most frequently raised findings are detailed below for EBs to consider:

| Recommendation type  | ENTRUST recommended action   |
|--|--|
| Form 4 – inaccurate, non reconciled or late                    | <ul style="list-style-type: none"> <li>• EBs must review their financial records and re-submit an updated and accurate Form 4.</li> <li>• EBs must provide start and end dates for projects.</li> <li>• EBs reminded they can make adjustments and corrections to their Form 4 on EOL.</li> <li>• Deadline for submitting the annual return should be recorded on EB management team calendars/agendas.</li> </ul> |
| Non compliant expenditure – spend outside of prescribed period | <ul style="list-style-type: none"> <li>• EBs reminded to monitor the completion of projects and request extensions to projects approaching their completion date.</li> <li>• EBs reminded to obtain project approval before spending LCF monies.</li> <li>• EBs to ensure LCF monies are only spent on the areas detailed in the project cost breakdown approved at registration.</li> </ul>                       |
| Project non compliance   | <ul style="list-style-type: none"> <li>• Monitor projects to ensure projects are open to the general public in compliance with the LCF Regulations.</li> </ul>   |
| Administration/Winding Up Costs                                | <ul style="list-style-type: none"> <li>• EBs reminded of guidance which details what should be included within an EBs winding up provision.</li> <li>• EB reminded of current guidance on administration costs.</li> <li>• EBs reminded that costs charged to the LCF should be reasonable and relevant to LCF activity.</li> </ul>  |
| Failure to complete Form 9                                     | <ul style="list-style-type: none"> <li>• EBs reminded to complete Form 9 once completion date has been entered onto the Project Breakdown sheet of the Annual Return.</li> </ul>   |