

# Final Internal Audit Report

## Community Fund: Contracts

### April 2022

Distribution: Interim Assistant Chief Executive  
Director of Policy, Programmes and Performance  
Community and Voluntary Sector Manager  
Interim Director Adult Social Care Commissioning, Policy and Improvement  
Corporate Director of Resources and S151 Officer

Assurance Level	Issues Identified	
Limited Assurance	Priority 1	1
	Priority 2	2
	Priority 3	1

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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### 1. Introduction

- 1.1 The role of Croydon Council (Council) in the Voluntary and Community Sector (VCS) is detailed within the Voluntary and Community Sector Strategy and includes providing funding in excess of £4 million of staff support and funding infrastructure organisations in order to deliver support to the VCS. The Council provides funding to 42 organisations whose services range from those providing support to the retired and elderly to those providing mental health services for young people.
- 1.2 During this audit we reviewed a sample of the grants made from the Small Grants Programme (for funding projects under £15K) and Community & Prevention Fund (for funding projects over £15K). Grants are paid in equal quarterly payments, in advance of each quarter.
- 1.3 The Community & Prevention Fund and Small Grants Programme are managed by the Policy and Procurement Team (PPT) of the Council. The individual organisations receiving grants are assigned a Contract Manager with whom they meet quarterly to discuss progress made on grant funded projects as well as any causes for concern.
- 1.4 Organisations in receipt of Small Grants submit an end of project report to the PPT outlining key successes and challenges faced, whereas organisations under the Community & Prevention Fund are set specific annual key performance indicators (KPIs) which are assessed on a quarterly basis. This data is collated by the Senior Community and Voluntary Sector Officer and presented at the quarterly performance meetings.
- 1.5 The Voluntary and Community Sector Manager (VCSM) monitors the Small Grants Programme and Community & Prevention Fund monthly to help ensure that expenditure is in line with the set budget. Monthly meetings are held with the Finance staff to discuss the budget as well as any variances identified.
- 1.6 The fieldwork for this review was completed remotely.
- 1.7 The audit was undertaken as part of the agreed Internal Audit Plan for 2021/22 based on a risk assessment. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

### 2. Key Issues

#### Priority 1 Issue

Signed contracts were not held for two of the sample of five organisations tested. Both organisations receive funds in excess of £15k per annum and despite having no signed contract funds had been released to both of these organisations. **(Issue 1)**

**Priority 2 Issues**

Contract monitoring meetings with grant recipient organisations were not recorded/minuted. **(Issue 2)**

Evidence of appropriate KPI's being set and monitored or end of project reports were not provided for three of the sample of ten grants selected. **(Issue 3)**

Priority 3 issue detailed under item 4.

**3. Actions and Key Findings/Rationale**

**Audit Area: Contract Formalities**

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1		
1	<p>The Covid-19 lockdown period meant that staff were unable to come into the office to check contracts received. Our normal practice is for all contracts to be signed and sealed before funding payments are authorised.</p> <p>The signed contract for one sample item identified has been signed and sealed and two hard copies are with Legal at BWH, one copy is ready to be mailed to the provider and the second copy is ready to be scanned onto Sharepoint. This will be completed by the end of January 2022.</p> <p>A signed contract was not in place for the other sample due to the issues above. However, this contract has now been served a formal closure notice (by mutual agreement) as Brexit-related changes means the project is unable to be delivered as envisaged. Nevertheless, in line with our normal practice, a signed contract should have been in place and this will be picked up in a ‘Lessons Learnt’ exercise to inform the next Community Fund.</p>	<p>A signed contract is required be in place between the Council and any organisations receiving funding of more than £15k, while an acceptance letter should be in place for organisations receiving the ‘Small Grant’ funding of less than £15k.</p> <p>Testing of the documentation for a sample of five organisations confirmed that for small grants, both organisations in our sample had acceptance letters in place. For those three receiving funding for over £15k, while a signed contract for one organisation was obtained, for the remaining two organisations only the hard copies of contracts sent to those organisations for signing were provided (i.e. not the signed contracts.)</p> <p>The VCSM explained that obtaining signed contracts has been an issue due to the Covid-19 lockdown, with some documents being delivered to empty offices (as staff were working from home) and other contracts being signed and returned but not yet been scanned (due to Council officers not being in the office since the Covid-19 pandemic started.) Furthermore, as they were not aware at the time that some contracts had not been signed, funding payments had not been held back.</p> <p>Where funding is provided to organisations which have not signed the contracts, there is a risk the Council lacks recourse should these organisations not deliver or comply with the grant conditions.</p>		
<b>Management Response</b>		<b>Agreed/Disagreed</b>	<b>Responsible Officer</b>	<b>Deadline</b>

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<p>Whilst the pandemic was a key driver to this issue, it is agreed that without signed contracts in place, there is a risk the Council lacks recourse should these organisations not deliver or comply with the grant conditions. This will be addressed in the 'Lessons Learnt' exercise to inform the next Community Fund.</p>	<p>Agreed</p>	<p>Community and Voluntary Sector Manager</p>	<p>August 2022</p>
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**Audit Area: Outcome and Compliance Monitoring**

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2		
2	<p>In the context of our Contract Management Framework improvements will be made to ensure actions/issues from monitoring meetings will be accurately captured.</p> <p>This point will also be picked up in a ‘Lessons Learnt’ exercise to inform the next Community Fund.</p>	<p>Schedule 1 ‘Contract Management’ of the standard contract with grant recipients, details that, ‘6-monthly monitoring meetings’ will be held. These meetings should be recorded or minuted to support the discussions held and agreed actions.</p> <p>Discussions with the VCSM confirmed that monitoring meetings take place but that the frequency of these meetings depended on individual Managers as some had ongoing communication with their providers whereas others would only ‘touch base’ once a quarter. We were also informed that these meetings were not recorded/minuted.</p> <p>Where formal monitoring meetings are not held regularly or minuted, there is a risk there is a lack of record of due diligence and that agreed actions are forgotten and not implemented.</p>		
Management Response		Agreed/Disagreed	Responsible Officer	Deadline
Agree that where records of formal monitoring meetings are not maintained, there is a risk that agreed actions are forgotten and not implemented.		Agreed	Community and Voluntary Sector Manager	August 2022

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Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 3		
2	<p>All outstanding project reports for the under £15k grants have since been chased with all but one now provided. We will continue chasing until we hold a complete set. With the exception of this final one, these reports demonstrate that the grant monies have been appropriately spent in achievement of the agreed outcomes.</p> <p>For sample item 2, KPIs were set about 2 weeks before Covid hit and given they were largely attendance based, they weren't particularly useful when everything shut down. Performance of the contract was measured through other means such as contract manager attendance on their online sessions, site visits (when appropriate), conversations and more generic quarterly reports around activities, case studies and feedback. A new contract manager will be in place from 1st Feb and will be work with the provider to agree fresh KPIs for the final year of the contract.</p> <p>For sample 3 KPIs have now been set.</p>	<p>Organisations which receive funding of more than £15K are set specific key performance indicators (KPIs) based on the project proposal submitted, (i.e. part 7.3 Question 4). Conversely, organisations which receive Small Grant funding (ie less than £15K) are required to provide an end of project report.</p> <p>Evidence of appropriate KPI's being set and monitored or end of project reports were not provided for three of the sample of ten grants (five less than £15k and five over £15k) selected, namely for:</p> <ul style="list-style-type: none"> <li>• Sample 1, which was a grant less than £15k. In this instance it was explained that the organisation was yet to submit their report as there have been delays in project deliveries due to the Covid-19 pandemic.</li> <li>• Sample items 2 and 3, both being grants over £15k.</li> </ul> <p>Where appropriate KPI's are not set and monitored or end of project reports are not provided, the Council does not have assurance that the grant monies have been appropriately spend in achievement of the outcomes that these were requested for.</p>		
Management Response		Agreed/Disagreed	Responsible Officer	Deadline
<p>Agree that where appropriate KPI's are not set and monitored or end of project reports are not provided, the Council does not have assurance that the grant monies have been appropriately spent in achievement of the outcomes that these were requested for.</p>		Agreed	Community and Voluntary Sector Manager	April 2022



**4. Priority 3 Issue**

Action Proposed by Management	Findings
<p>The Community Fund budget was subject to planned actions that made it look as though it was underspent in one year and overspent in the next (as 5 quarters were intentionally paid within one financial year due to an historic accrual issue).</p> <p>However, it is important to note that at no point did the forecast 'not make sense' as it was subject to these regular meetings between the service and finance, and the forecast was always agreed with support from the excel spreadsheet maintained by the Community and Voluntary Sector Manager (updated ahead of each of the monthly budget monitoring meetings with Finance colleagues). However, we accept that the finance system itself did not hold an explanation of the forecast, and this will be improved for future budget monitoring.</p>	<p>Regular (at least monthly) budget monitoring helps to prevent budgets being overspent and helps identify miscoding and other errors so that these can be corrected in a timely manner. Recording the actions arising from this monitoring, as well as providing notes on any variances, provides a record to refer to in subsequent meetings.</p> <p>Discussions with the VCSM established that monthly budget monitoring meetings with the service accountant did take place, however these were not recorded or minuted. Review of the budget monitoring spreadsheet provided (had been generated using 'smartview' which is only available to accountants) was able to confirm that the budget was being monitored monthly.</p> <p>Review of the October, November and December 2020 budget monitoring reports (for 'C14530: COMMUNITY FUND') however, noted that the year-end forecast figures did not make sense and that no notes were provided. For example, the December 2020 report detailed that the set budget was £1,224,000 with actual spend being £2,192,439 and yet the year end forecast was for £699,526. There were no notes on the variance analysis or how the forecast figure was arrived at and, although we requested an analysis, a response was not provided.</p> <p>Where budget meetings and the actions arising and notes on budget variances are not recorded, there is a lack of evidence of due diligence and a lack of record to refer to in subsequent meetings.</p>

## AUDIT TERMS OF REFERENCE

### Community Funds – 2021/22

#### **1. INTRODUCTION & BACKGROUND**

- 1.1 The Council provides a range of financial support to the voluntary, community and social enterprise sector. This equates to in excess of £4m per annum, which includes the Community & Prevention Fund, the Community Small Grants Programme, Youth Fund, Green Fund, Local Voluntary Partnership (LVP) Fund, rent subsidies and business rate relief.
- 1.2 Following the launch of the Corporate Plan, the Council developed a Voluntary and Community Sector (VCS) Strategy, which was agreed by Cabinet in March 2019. The VCS strategy informs the way the Council works with the voluntary and community sector, including the recommissioning of the 'Community Fund'.
- 1.3 The 'Community Fund' aims to support the delivery of the priorities of the Corporate Plan, some of which include 'people live long, healthy, and independent lives', 'young people thrive and reach their full potential' and 'everybody feels safer in their street, neighbourhood, and home'.
- 1.4 The budget for the Community Fund and Prevention Fund is £7,792,929 for three years from 1 April 2020 to 31 March 2023, with an annual projected spend of about £2,598,000.
- 1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2021/22.

#### **2. AUDIT OBJECTIVES AND METHODOLOGY**

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
  - Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls, and
  - Report on these accordingly.

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### 3. SCOPE





3.1 The audit included the following areas and number of issues identified:

Audit Area	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	1
Contract Formalities	1	0	0
Outcome and Compliance Monitoring	0	2	0
Payments	0	0	0
Budget Management	0	0	0
<b>Totals</b>	<b>1</b>	<b>2</b>	<b>1</b>

### Definitions for Audit Opinions and Identified Issues

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

**Statement of Responsibility**

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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