

Final Internal Audit Report

CALAT – Financial Planning

July 2023

Distribution: Corporate Director of Sustainable Communities, Regeneration & Economic Recovery

Director of Planning & Sustainable Regeneration

Head of Employment, Skills & Economic Development

Strategic Service Manager

Funding and Performance Manager

Director of Finance (Deputy 151)

Corporate Director of Resources and S151 Officer (Final only)

Assurance Level	Issues Identified	
Substantial Assurance	Priority 1	0
	Priority 2	1
	Priority 3	0

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.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

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 Croydon Adult Learning and Training (CALAT) provides adult learning opportunities on behalf of the London Borough of Croydon. CALAT offers approximately 500 part-time courses to over 2,500 people every year.
- 1.2 The wide range of courses provided enables people to improve their existing qualifications and skills. CALAT provides vocational and job search training and delivers training in the workplace for specialised workforce development opportunities. There are three training centres across the Borough - Croydon Clocktower; Strand House and New Addington.
- 1.3 CALAT operates as a 'Lead Provider' and is funded through the Education and Skills Funding Agency (ESFA) and Greater London Authority (GLA). This audit has not assessed the compliance with ESFA and GLA funding rules and should not be considered assurance that funding rules have been complied with.
- 1.4 This audit has assessed the adequacy of CALAT's financial planning and budget monitoring. Our assurance opinion is, therefore, restricted to the areas outlined in the scope table contained in Appendix 1.
- 1.5 Whilst our review and testing were performed remotely, we have been able to obtain all relevant documents required to complete the review.
- 1.6 The audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 2 Issue

Examination of the course calculator spreadsheet for five cost centres suggested total negative balances of £133,595 indicating adverse financial sustainability for the delivery of the courses. **(Issue 1)**

There are no Priority 3 issues raised in this audit.

3. Actions and Key Findings/Rationale

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1														
2	<p>As the funding is a single budget, the primary consideration is to ensure we achieve the overall targets in terms of numbers of learners /achievements and secure the full allocation. Some cost centres may show a loss but this is compensated for by the cost centres where targets are over-achieved. The split between cost centres is not a funding requirement as it is provided as a single budget.</p> <p>The cost centres were set up to help manage the overall budget. This academic year programme managers have over-planned, setting up more courses than needed to meet the funding target to ensure that even if we run some courses with lower learner numbers for example when we are trying to engage with new groups of learners</p>	<p><u>Expected Control</u></p> <p>The course calculator spreadsheet is a tool used to calculate the projected funding and financial viability of each course cost centre. Included in the projection are the total number of learners registered for the course, percentage (%) of learner retention, tutor cost and funding achievement. Key to assessing the financial viability is to understand the cost required to deliver the course and the potential funding that can be generated from these courses. The course calculator is considered a critical component of assessing a course’s overall sustainability and decisions are made based on the viability of the course.</p> <p><u>Issue/Finding</u></p> <p>Examination of the course calculator spreadsheet for five out of eleven cost centres noted the courses are showing negative balances for all the cost centres, as follows:</p> <table border="1"> <thead> <tr> <th>Cost Centre</th> <th>Balances</th> </tr> </thead> <tbody> <tr> <td>C10522</td> <td>-£50,285</td> </tr> <tr> <td>C10546</td> <td>-£42,654</td> </tr> <tr> <td>C10558</td> <td>-£2,340</td> </tr> <tr> <td>C10570</td> <td>-£27,138</td> </tr> <tr> <td>C10519</td> <td>-£11,178</td> </tr> <tr> <td>Total</td> <td>£-133,595</td> </tr> </tbody> </table>	Cost Centre	Balances	C10522	-£50,285	C10546	-£42,654	C10558	-£2,340	C10570	-£27,138	C10519	-£11,178	Total	£-133,595
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or trying out new courses to encourage new learners, we will still meet the target number of learners for the full funding allocation.

Our target market for courses are those people who are furthest away from formal education, who have low levels of literacy and numeracy, have been unemployed for a long time or face challenges with their health, confidence and/or family circumstances. To engage with them and gain their trust, it is good practice to offer courses with smaller numbers in the community to give them time to gain confidence and reduce anxiety so that they can then move onto more mainstream provision in our centres. We also work with adults with moderate learning difficulties and disabilities who require additional support to participate, and again smaller class sizes are the norm, but also tend to be more expensive to run as due to the need to provide additional learning support and resources. These courses are offset against courses where classes can accommodate 20+ learners.

Discussion with Strategic Services Manager and Funding & Performance Manager established that the funding calculator merely serves as a guideline, the balances do not determine the decision on running the courses. Financial viability assessment is through reviewing of monthly salary budget and ensuring that total spending is within the budget allocated. Examination of the latest forecasted budget in October 2022 noted that CALAT has an underspend of £7k projected up to March 2023.

Risk

Without an initial accurate assessment to evaluate the risk and financial viability, there could be a risk that the courses are running at loss and Council is exposed to financial risk.

Mitigating controls:

- 1) Attendance is monitored closely throughout each term and where the number of learners falls below five for more than two weeks the course is cancelled and the remaining learners are offered alternative courses
- 2) Learners who leave before the course ends are contacted to establish their reasons. Where they have left to take up employment, we can claim an achievement payment for that learner which contributes to covering the cost of the course.
- 3) If we are running two similar courses and both have low numbers, they are merged to make one viable course.
- 4) We have overplanned the number of courses to be delivered in each curriculum area to ensure we can meet the funding targets (number of learners) and cover the cost of delivery.

Additional information:

The GLA requires an annual delivery plan which sets out the target number of learners and their achievement to be delivered against the funding allocation. At the end of 2022-23 academic year, we have so far delivered 98.6% against the overall target (the threshold to ensure we receive the full funding allocation is 97%) When we are able to add in the achievement data from exams currently being taken, we anticipate achieving at least 99.5% of target.

We have achieved 110% of the ESFA allocation to date.

In terms of the cost centres identified:

- Cost Centre 10522 generated £82,991 in fees
- Cost Centre 10519 generated £28,312 in fees.
- Cost Centre C10570 overachieved against target by £12,689.

	<ul style="list-style-type: none"> • Cost Centre C10546 overachieved by £3,542. <p>As already stated, the overall achievement will be around 99% against target so there is no financial risk to the Council</p>	
Responsible Officer	Deadline	
Head of Employment, Skills and Economic Development	N/A	
Internal Audit Comment		
<p>Management’s response is understood by Internal Audit. Whilst our observation was correct at the time of the audit, we are satisfied based on the management response that the service has achieved its target in overall terms. However, it may be worth considering whether the course calculator spreadsheet tool could be adjusted to be a more useful / accurate predictor of course viability.</p>		

TERMS OF REFERENCE

CALAT - Financial Planning

1 INTRODUCTION

- 1.1 Croydon Adult Learning and Training (CALAT) provides adult learning opportunities on behalf of the London Borough of Croydon. CALAT offers approximately 500 part-time courses to over 2,500 people every year.
- 1.2 The wide range of courses provided enables people to improve their existing qualifications and skills. CALAT provides vocational and job search training and delivers training in the workplace for specialised workforce development opportunities. There are three training centres across the Borough - Croydon Clocktower; Strand House and New Addington.
- 1.3 CALAT operates as a 'Lead Provider' and is funded through the Education and Skills Funding Agency (ESFA) and Greater London Authority (GLA).
- 1.4 As part of the agreed 2022/23 Internal Audit Plan, an internal audit of CALAT – Financial Planning was identified to be undertaken.

2 OBJECTIVES AND METHOD

- 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 focus on each control / process being considered:
- Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls, and
 - Report on these accordingly.

3. SCOPE

- 3.1 This audit included the following areas (and issues raised):

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislative, Organisational and Management Requirements	0	0	0
Financial Viability of Courses	0	1	0
Future Financial Planning	0	0	0
Budget Monitoring	0	0	0





Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Management Oversight and Reporting	0	0	0
Total	0	1	0

Appendix 2

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:

Priority 1 (High)	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
Priority 3 (Low)	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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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