

# Final Internal Audit Report

## Grant Funding Received: Compliance with Grant Conditions and Reporting

November 2024

Distribution: Corporate Director, Resources & S151 Officer  
Director of Finance & Deputy S151 Officer  
Head of Strategic Finance  
Head of Finance, CYPE  
Head of Finance, Housing  
Head of Finance, ASCH  
Head of Finance, SCRER  
Head of Finance, Corporate/ACE/Resources

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

### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Forvis 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. A significant proportion of Croydon Council's (Council) activities and expenditure are funded by grants from central government, as well as other public bodies such as the NHS. The Council's budget for 2023/24 expected £404.5m in government grants (not including the Revenue Support Grant which feeds into the Council's general fund) and £29m in other grants and reimbursements.
- 1.2. Grants from central government and other bodies are usually reserved for a specific purpose and, as a result, the Council must ensure that only eligible spending has been allocated against each grant. Grants often require returns to be completed by the Council to indicate how funds have been spent and, in some cases, external assurance of grant funding is required.
- 1.3. The Head of Finance advised that grants are maintained separately by the respective grant owners and that each grant has a separate set of processes which are expected to be followed.
- 1.4. Following the issuing of the Final Terms of Reference on the 21 February 2024, an initial information request list was sent to the Heads of Finance on 29 February 2024. The information request was discussed at the opening meeting on the 6 March 2024, and this was followed by a sample request email on the 7 March 2024 for ten grants across the Council. After discussions with the Head of Finance on the 8 March 2024, an updated sample was selected. By the 12 March 2024, information for three grant samples (from ten) had been received. An email was sent to the Head of Finance on the 12 March 2024 to communicate that information sent across after this date would not be reviewed unless it was uploaded by end of that day. Information for another two grants was provided on the 13 and 23 March 2024, after the cut-off date. The Head of Internal Audit was kept informed throughout.
- 1.5. A request for a closing meeting was sent on the 22 March 2024 to the Head of Finance. However, a response was not received until the 20 June 2024. A closing meeting was held with the Head of Finance on the 2 July 2024.
- 1.6. The audit was undertaken as part of the agreed Internal Audit Plan for 2023/24. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

**2. Key Issues****Priority 1 Issues**

The Council did not have an up-to-date central grant register to maintain corporate financial oversight. Whilst one existed, this was created retrospectively for the year 2022-23 and was not in active use. This register was not provided during the audit. Additionally, it was not possible to verify oversight over grants on a directorate level during the audit period due to delays in receiving initial evidence. **(Issue 1)**

**Priority 2 Issues**

Internal Audit was provided with documentation for a sample of five grants (see Annex 1). However, testing to verify whether all grant conditions had been met (where relevant) could not take place due to a delay in receiving this evidence. **(Issue 2)**

Due to delays in receiving the transaction listings for the sampled grants, Internal Audit was unable to complete further testing to verify the eligibility of spending. **(Issue 3)**

The Head of Finance advised that there was no central mechanism to monitor if appropriate returns, reporting and grant assurance to funders was taking place. Internal Audit was provided with some documentation for the grants sampled (Annex 1), however, further testing to verify whether all reporting requirements were met (where relevant) could not take place due to delays in receiving the initial evidence. **(Issue 4)**

The Priority 3 finding is included under item 4 below.

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

**Control Area 1: Corporate Financial Oversight of Grants**

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1
1	<p>Capacity is being created within the new Strategic Finance team structure to support additional financial controls such as a central grants register.</p> <p>Posts in the new Strategic Finance structure are being recruited into, working down the hierarchy levels.</p> <p>A grant register will be maintained centrally once the posts in the new structure are filled and capacity freed up from other priorities such as the prior years' accounts.</p>	<p><b>Expected Control</b></p> <p>A central grant register is maintained to help ensure corporate financial oversight of grants received across the different directorates. This records key information for these grants, including but not limited to:</p> <ul style="list-style-type: none"> <li>• The total value of the grants (or possible values where this is not a fixed amount)</li> <li>• Actual and planned expenditure against the grants</li> <li>• Grant conditions</li> <li>• Internal reporting cycles</li> <li>• Requirements around returns, external reporting to the funder, and grant assurance requirements</li> </ul> <p>The Council has periodic internal meetings to maintain financial oversight over the grants allocated and how these are being managed.</p> <p><b>Finding/Issue</b></p> <p>The Head of Finance advised that the Council did not have up-to-date central grants register and that each individual grant owner was responsible for managing their own grants and maintaining grant documentation. The Head of Finance explained that a grants register was completed retrospectively for the year 2022-2023; however, this</p>

		<p>central grant register had not been updated or used since. This register was not provided during the audit.</p> <p>Through further discussions with the Heads of Finance, it was found that each Directorate had a separate set of processes to maintain oversight of grants. However, no evidence was provided that these processes were documented or formalised.</p> <p>The Head of Finance for Adult Social Care 7 health, the Head of Finance for Resources/ACE, and the Heads of Finance for CYPE advised that a mechanism for maintaining oversight at a Directorate level for their Directorates was through meetings and internal reporting requirements, the frequency and format of which was dependent on the individual grants.</p> <p>A sample of ten grants were selected from the “Grants received 23-24 spreadsheet”, which included a listing of grants by account code. However, initial evidence was only received for five grants (see Annex 1). The five grants for which evidence was provided were received at a late stage of the internal audit and, as such, further testing to verify Directorate level financial oversight was not possible in the time budgeted for this audit.</p> <p><b>Risk</b></p> <p>Where a central mechanism for maintaining corporate oversight over grants is not in place, there is a risk that issues across the directorates are not identified and resolved in a timely manner.</p>
Responsible Officer	Deadline	
Head of Strategic Finance – Chief Accountant	March 2026	

### Control Area 3: Ensuring Grant Conditions are Met

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2				
2	<p>The knowledge around grant conditions, and work to ensure they are met remains local to the service deploying the grant.</p> <p>A year-end working paper is compiled retrospectively as part of the working papers requested by External Audit.</p> <p>Notwithstanding the above, the respective Heads of Strategic Finance informally keep an overview of the respective grants for their directorate through the normal budget monitoring process.</p>	<p><b>Expected Control</b></p> <p>The Council should have a central mechanism to document grant conditions (i.e. what the grant should be used for and how it should be managed), and there should be sufficient central oversight to provide assurance that grant conditions are being met.</p> <p><b>Finding/Issue</b></p> <p>The Head of Finance advised that the respective officers responsible for the grants ensured that grant conditions were met through their own set of processes.</p> <p>A review of the five grants from the <i>Grants received 23-24 spreadsheet</i> was completed to test if grant conditions were met for these grants. Whilst the relevant officers provided documentation for the grants listed in Annex 1, further testing to verify if all grant conditions had been met (where relevant) was not possible due to a delay in receiving the initial evidence.</p> <p><b>Risk</b></p> <p>Where monitoring of grant conditions does not take place, there is a risk that grant conditions are not being met. Where grant conditions are not met, there is a risk that the Council may need to repay funding received, this could have both legal and financial implications for the Council.</p>				
	<table border="1"> <thead> <tr> <th>Responsible Officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Head of Strategic Finance – Chief Accountant</td> <td>N/A</td> </tr> </tbody> </table>	Responsible Officer	Deadline	Head of Strategic Finance – Chief Accountant	N/A	
Responsible Officer	Deadline					
Head of Strategic Finance – Chief Accountant	N/A					

#### Control Area 4: Oversight/Identification of Ineligible Spending

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 3
2	<p>The oversight of expenditure against grant conditions needs to remain local to the service deploying the grant.</p> <p>The Council’s aim is to empower, and hold accountable, budget holders (with service finance being a support function) to ensure Best Value for local taxpayers.</p> <p>Grant returns are signed off in line with the conditions specified by the grant return.</p> <p>Notwithstanding the above, the respective Heads of Strategic Finance informally keep an overview of the respective grants for their directorate through the normal budget monitoring process.</p>	<p><b>Expected Control</b></p> <p>The Council should have a formal process in place to maintain oversight to ensure that all grant spending is eligible. The implementation of periodic spot checks enables identification of instances of ineligible spending.</p> <p><b>Finding/Issue</b></p> <p>The Head of Finance advised that there was no formal process for maintaining central oversight over the spending of grants, to ensure there was not any ineligible spending. However, the Head of Finance explained that budget holders were responsible for ensuring that only eligible spending goes on the code and that funding cannot be released without prior sign off by the relevant officer in accordance with the Council Financial Regulations.</p> <p>A sample of ten grants were selected from the <i>Grants received 23-24</i> spreadsheet for further testing. However, Internal Audit only received the initial evidence for five grants (Annex 1) with a list of transactions provided for only three provided nearing the end of or after the fieldwork. Internal Audit were therefore unable to complete further testing to verify eligibility of spending for the sample of transactions.</p> <p>For the remaining two of five:</p> <ul style="list-style-type: none"> <li>• <b>Homes for Ukraine grant:</b> A detailed breakdown of each payment was not provided; and</li> <li>• <b>DCLG Business Rates Multiplier Cap Section 31 grant:</b> Evidence of expenditure was not provided. However, The Head of Finance advised that there was no evidence of expenditure for the multiplier cap grant as it is general funding provided</li> </ul>



		to compensate the Council for an implied loss of income, rather than grant funding for specific purposes, although reporting conditions still apply.
		<b>Risk</b>
<b>Responsible Officer</b>	<b>Deadline</b>	
Head of Strategic Finance – Chief Accountant	N/A	Where monitoring of ineligible spending does not take place, there is a risk that the grant funds are being used inappropriately, this could lead to the Council no longer being eligible to receive the grant funding. Inappropriate use of grant funding could also lead to the Council being required to return the money spent, this could have financial and legal implications.

## Control Area 5: Returns, Reporting and Grant Assurance

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 4
2	<p>The oversight of grant returns and funder reporting needs to remain in the service which leads on the grant.</p> <p>The Strategic Finance team is not resourced to monitor all aspects of grant claims and trying to take on this oversight responsibility would go against the Council’s aim to empower and hold accountable budget holders (with service finance being a support function), would distract corporate finance from higher priorities and could be perceived as not providing Best Value to local taxpayers.</p> <p>Notwithstanding the above, the respective Heads of Strategic Finance informally keep an overview of the respective grants for their directorate through the normal budget monitoring process.</p>	<p><b>Expected Control</b></p> <p>The Finance team’s central oversight of grant funding should ensure that all returns and funder reporting required by grant conditions is completed in a timely manner. The Finance team should monitor any reporting deadlines and liaise with budget holders to ensure these are met.</p> <p>Where third-party grant assurance is required as part of funding conditions, assurance should have been received in advance of reporting deadlines.</p> <p><b>Finding/Issue</b></p> <p>The Head of Finance advised that there was currently no central mechanism to monitor if appropriate returns, reporting and grant assurance to funders was taking place. This was currently devolved with individual owners of the grants and each grant had a different reporting cycle.</p> <p>A sample of ten grants (Annex 1) were selected from the <i>Grants received 23-24 spreadsheet</i>. However, initial evidence was only provided for five of these grants.</p> <p>The Heads of Finance and Interim Principal Accountant provided documentation for the grants in Annex 1, however, further testing to verify if all reporting requirements were met (where relevant) could not take place due to a delay in receiving the initial evidence.</p> <p><b>Risk</b></p> <p>Where returns, reporting, and grant assurance does not take place to funders, there is a risk that funders are not provided with reassurance that the grant funding is being used appropriately, this could lead to impaired relationships with the funders.</p>

Responsible Officer	Deadline	
Head of Strategic Finance – Chief Accountant	N/A	

#### 4. Priority 3 Issues

Agreed action	Findings
<p><b><u>Control Area 5: Management Information and Internal Reporting</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>With finite resources, the Council needs to prioritise its resources on a risk-based approach. Material strategic grants will continue to be highlighted at an overview level in the financial performance reports to CMT, MAB and Cabinet, such as the Dedicated Schools Grant (DSG).</p> <p><b><u>Responsible Officer:</u></b></p> <p>Head of Strategic Finance – Chief Accountant</p> <p><b><u>Deadline:</u></b></p> <p>N/A</p>	<p><b>Expected Control</b></p> <p>The maintenance of a formal internal reporting cycle for each grant provides a way to monitor errors, overspending or underspending, in a timely manner. It is important that these reports are shared with the relevant officers to enable financial oversight.</p> <p><b>Issue/Finding</b></p> <p>The Head of Finance advised that information regarding all grants is reported to CMT (Corporate Management Team) on a monthly basis (holistically) as part of the budget monitoring process. Internal Audit requested reports for management reporting on grant funding/spending for the last 12 months and the internal reports produced to monitor grant funding/spending for the last 12 months. These were not provided by the cut-off date for information requested.</p> <p>After the closing meeting, the Head of Finance provided us with the report submitted to CMT for 13th May 2024. This included the Councils draft financial position for March 2024 and some reference to grants, but only where these formed a significant part of a department's position (for example, public health in the Assistant Chief Executive (ACE) department). The ACE department pack, which went to the ACE DMT (Directorate Management Team) included more detail, however the CMT received high-level information. Holistic reporting on all grants therefore did not take place.</p> <p>Further testing was not possible to verify internal reporting for a sample of the five individual grants due to initial delays in receipt of information requested.</p> <p><b>Risk</b></p> <p>Where periodic internal reporting does not take place, there is a risk that over or underspending against the grant is not identified in a timely manner. This could lead to errors in decisions made for the amount of funding available.</p>

## Grant sample detail

Grant	Information Received
<b>DLUCH covid 19 support for Retail Hospitality and Leisure (RHL) businesses section 31 (£ 5,462,026)</b>	The Head of Finance provided the completed NNDR1 form sent to the Government. However, the date of submission for this form was not verified. It should be noted that the final submission deadline for the NNDR3 had not yet passed at the time of the audit (March 2024).
<b>DCLG business rates multiplier cap section 31 (£ 11,079,873)</b>	The Head of Finance provided the completed NNDR1 form sent to the Government. However, the date of submission for this form was not verified. It should be noted that the final submission deadline for the NNDR3 had not yet passed at the time of the audit (March 2024).
<b>Home Office UASC (£ 2,187,985)</b>	The Head of Finance CYPE provided the funding statement from the Home Office, as at 31 August 2023, the year-end remittance statement for the financial year 2022-2023 from the Home Office, and the payment allocation document (22 May 2023).
<b>Homes for Ukraine (£ 472,650)</b>	The Interim Principal Accountant provided the download of returns submitted to Delta between July - September 2023. A review of this document found that both grant conditions were ticked as being met.
<b>Adult Social Care discharge grant (£ 1,049,145)</b>	The Head of Finance ASCH provided reports detailing expenditure forecasts and spend to date and the Discharge Fund Grant Determination 2023-2024 document.
<b>Better care fund (£ 7,484,112)</b>	Not received
<b>Schools funding – DFC (£ 271,551)</b>	Not received

Grant	Information Received
Parenting support (£ 169,250)	Not received
Schools block DSG (£ 138,823,982)	Not received
Recovery premium grant (£ 1,177,839)	Not received

## INTERNAL AUDIT TERMS OF REFERENCE

### Grant Funding Received: Compliance with Grant Conditions and Reporting

#### 1. INTRODUCTION

- 1.1 A significant proportion of Croydon Council's activities and expenditures are funded by grants from central government, as well as other public bodies such as the NHS. The Council's budget for 2023/24 expected £404.5m in government grants (not including the Revenue Support Grant which feeds into the Council's general fund) and £29.0m in other grants and reimbursements.
- 1.2 The division of grant funding between directorates under the 2023/24 budget is as follows:

Directorate	Government Grants	Other Grants & Reimbursements
Adult Social Care & Health (ASCH)	£5.4m	£18.1m
Assistant Chief Executive (ACE)	£22.8m	£0.6m
Children, Young People and Education (CYPE)	£203.1m	£2.3m
Housing	£9.0m	£0.3m
Resources	£153.5m	£2.9m
Sustainable Communities, Regeneration and Economic Recovery (SCRER)	£10.8m	£4.8m

- 1.3 Grants from central government and other bodies are usually reserved for a specific purpose, and as a result, the Council must ensure that only eligible spending has been allocated against grant income. Grants often require returns to be completed by the Council to indicate how funds have been spent, and in some cases, external assurance of grant funding is required.
- 1.4 This audit is part of the agreed Internal Audit Plan for 2023/24.

#### 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 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.

### 3. SCOPE

3.1 This audit, focussed on grant funding received, was undertaken as part of the 2023/24 Internal Audit Plan. The specific scope included the following areas and recommendations:





Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Corporate Financial Oversight of Grants	1	0	0
Ensuring Grant Conditions are Met	0	1	0
Oversight/Identification of Ineligible Spending	0	1	0
Returns, Reporting and Grant Assurance	0	1	0
Management Information and Internal Reporting	0	0	1
<b>Total</b>	<b>1</b>	<b>3</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 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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