

Final Internal Audit Report

Voluntary Organisations: Leases & Premises Management

November 2024

Distribution: Interim Head of Asset Management
Acting Head of Facilities Management
Director of Policy, Programmes and Performance
Interim Assistant Chief Executive
Head of Finance (Corporate/ACE/Resources)
Director of Finance & Deputy S151 Officer
Corporate Director, Resources & S151 Officer

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

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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 Croydon Council (Council) owns a significant number of commercial properties across the Borough. Some of these properties are leased to voluntary and community sector (VCS) organisations through a procedure known as a 'community asset transfer' (CAT). The Council's Corporate Asset Management (CAM) Plan, issued in November 2022, states the number of such properties to be 78 at that time.
- 1.2 To obtain a CAT, a VCS organisation must demonstrate that it will use the asset to deliver a useful service for residents. The Council will only grant a CAT where it represents good value for the Council in terms of achieving the Council's social objectives. The Council has a CAT Policy that outlines the criteria to be used to determine this. A CAT may include 'premises related support' (PRS), which is a form of one-off financial assistance which effectively reduces the tenant's rental liability below market rates.
- 1.3 Due to the financial pressures that the Council has come under in recent years, and significant savings targets imposed as a result of the Medium-Term Financial Strategy (MTFS), the Council has had to review the granting of CATs. The updated draft CAT Policy dated April 2024, which was still in draft at the time of the audit, states that, while new CATs may be granted in the future, it will be under much more limited circumstances.
- 1.4 All arrangements relating to leases of Council property, and the management of these premises, should be clearly documented. Written leases should have been signed for all properties that clearly set out the rent as well as the obligations of both tenant and landlord.
- 1.5 As a landlord, the Council maintains various legal obligations, even when only in receipt of nominal rents. These include maintenance and health & safety requirements, as well as procedures that must be followed in order to evict a tenant lawfully. It is important that the Council adheres to its obligations as a landlord as all properties are owned by the Council.
- 1.6 While this review and testing were performed remotely, relevant documents required to complete some areas of the review were obtained. As there have been no CAT transfers in the last two years, the following areas of audit were not conducted:
 - Leases & Documentation; and
 - Other Obligations as Landlord (including Maintenance).
- 1.7. 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 2 Issues

Neither the Corporate Asset Management Plan nor the CAT Policy were version controlled, and the PRS Policy was 18 months past the date of next review. **(Issue 1)**

The Monthly Statutory Compliance Reports did not include the targets for compliance metrics. Most metrics reported in the months reviewed were below target. **(Issue 2)**

There were no priority 3 findings.

3. Actions and Key Findings/Rationale

Control Area 1: Legislative, Organisational and Management Requirements

| Priority | Action Proposed by Management | Detailed Finding/Rationale - Issue 1 |
|----------|---|---|
| 2 | <p>The Current CAMP is due to be reviewed and updated to reflect the new property strategy being adopted by the Council and the effect of its large scale disposals of its non-essential assets. This is likely to result in a reduction of over 20% in the portfolio.</p> <p>The Council, has now formally adopted the revised CAT policy which did have version control and is being used to asset any CAT applications being made to the Council.</p> <p>On the PRS Policy – there is no longer a policy since the Council has withdrawn all PRS to all third parties in the</p> | <p>Expected Control</p> <p>Strategies, policies and procedures relating to the management of community properties are subject to regular review, and updated to ensure that these adhere to the Council's current strategic objectives. Documents are version controlled to ensure that the most recent versions are used.</p> <p>Finding/Issue</p> <p>The Corporate Asset Management (CAM) Plan outlines the broader strategic approach to be followed for Council-owned properties, including community properties. In addition, a Premises Related Support for the VCS Sector (PRS) Policy and a draft Community Asset Transfer (CAT) Policy exist which go into further detail.</p> <p>A review of these found that the CAM Plan was not version controlled, meaning that it did not indicate the date of issue, nor the date of next review. The draft CAT Policy was still in draft at the time of audit, although the title of the file stated April 2024, the document itself also lacked version control.</p> <p>While the PRS Policy contained version control, the version provided as part of the audit was issued in January 2020, with the next review date noted as December 2022.</p> |

| | | |
|-----------------------------------|--|--|
| | Borough. To confirm no review is planned for PRS policy. | As such, the PRS Policy was over 18 months past the date of review at the time of the review (June 2024). |
| | | Risk |
| Responsible Officer | Deadline | Where strategies, policies & procedures are not kept up to date and version controlled, there is a risk that staff will rely on out-of-date information. |
| Director of Commercial Investment | 2025/2026 | Where leases are granted or rents based on out-of-date information within the PRS Policy, this could result in financial loss for the Council. |

Control Area 6: Reporting and Monitoring

| Priority | Action Proposed by Management | Detailed Finding/Rationale - Issue 2 |
|----------|--|---|
| 2 | <p>Given the reduction on third party tenants the Council there has been a significant reduction in the scale of data being provided to the Council.</p> <p>The H&S team has been expanded with a wider remit to monitor and review third party compliances.</p> <p>The Council managed properties and services report data into the Council H&S Board where it is reporting over 95% compliance.</p> <p>As part of the updated H&S policy adopted by the Council the Director of Commercial Investment and Capital is now the H&S SRO across the whole Council.</p> <p>Compliance is reported via the Corporate H&S Board. Given the continuing reduction in VO leases in Council owned</p> | <p>Expected Control</p> <p>Monthly Statutory Compliance (MSC) reports which include performance metrics, and measured against targets, are regularly reported to management.</p> <p>Performance against statutory compliance targets is also reported quarterly to the Council’s Health & Safety board.</p> <p>Where targets for statutory compliance are not met, the causes of non-compliance are investigated, and improvements are made.</p> <p>Finding/Issue</p> <p>MSC reports for February, March and April 2024 were reviewed and confirmed to outline the Council's compliance with a number of statutory obligations, such as gas safety, legionella risk assessments and electrical safety. Additionally, quarterly reports are submitted to the Health & Safety board which include similar metrics.</p> <p>Examination of the MSC reports found that these did not include targets for the performance metrics listed. However, the quarterly reports to the Health & Safety board did include targets, indicating a target of 100% (full compliance) for all statutory compliance metrics.</p> <p>Furthermore, it was found that a few measures had reported 100% compliance in some months. However, the vast majority had compliance of between 90% and 100%. The exceptions were ‘roof access’ and portable appliance testing (PAT), which were below 90% in February 2024. (Note: Internal Audit has not verified the source data from which these statistics were compiled.)</p> |

| | <p>properties, the matter of seeking to set future targets for the performance metrics has been suspended for the next 18 months and will be revisited at the end of 2025/2026 which is the scheduled completion of the disposals programme.</p> | <p>It was noted that the MSC reports did not include any narrative explanation of why compliance targets had not been achieved.</p> <p>Risk</p> <p>Where detailed reporting on statutory compliance is not in place, there is a risk that non-compliance could go unidentified. If the causes of poor performance and non-compliance are not investigated, there is a risk of continued poor performance.</p> <p>Where the Council is not compliant with statutory obligations around health & safety, tenants and the public may be put at risk of injury. This could expose the Council to liability as landlord.</p> |
|-----------------------------------|--|--|
| Responsible Officer | Deadline | |
| Director of Commercial Investment | Completed | |

AUDIT TERMS OF REFERENCE

Voluntary Organisations: Leases and Premises Management

1. INTRODUCTION

- 1.1 A number of voluntary organisations operate from premises owned by Croydon Council, particularly for the provision of early years education. In some cases, these organisations have very favourable lease arrangements for these premises, such as below-market rents and in some cases, nominal (or “peppercorn”) rents.
- 1.2 Due to the financial pressures that the Council has come under in recent years, and significant savings targets imposed as a result of the Medium-Term Financial Strategy (MTFS), the Council has had to review the granting of favourable leases to voluntary organisations. While these arrangements may be beneficial in some circumstances, such as to further the Council’s social or service objectives, in other cases, the leases may not represent good value for the Council, or for taxpayer’s money.
- 1.3 All arrangements relating to leases of Council property, and the management of these premises, should be clearly documented. Written leases should have been signed for all properties that clearly set out the rent as well as the obligations of both tenant and landlord.
- 1.4 As a landlord, the Council maintains various legal obligations, even when only in receipt of nominal rents. These include maintenance and health & safety requirements, as well as procedures that must be followed in order to evict a tenant lawfully. It is important that the Council adheres to its obligations as a landlord at all properties owned by the Council.
- 1.5 This audit was part of the agreed Internal Audit Plan for 2023/24.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective was to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit for each control / process being considered:
 - Walked-through the processes to consider the key controls;
 - Conducted sample testing of the identified key controls, and
 - Reported on these accordingly.

3. SCOPE





3.1 This audit, focused on leases and premises management for voluntary organisations, 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) |
| Legislative, Organisational and Management Requirements | 0 | 1 | 0 |
| Due Diligence and Value for Money | 0 | 0 | 0 |
| Leases and Documentation | N/A – No CAT transfers in the last two years, unable to test. | | |
| Income Collection | 0 | 0 | 0 |
| Other Obligations as Landlord (incl. Maintenance) | N/A – No CAT transfers in the last two years, unable to test. | | |
| Reporting and Monitoring | 0 | 1 | 0 |
| Total | 0 | 2 | 0 |

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 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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