

Final Internal Audit Report

Growth Zone

December 2018

Distribution: Executive Director of Place (Final report only)
Director of Growth
Programme Manager

| Assurance Level | Recommendations Made | |
|-----------------------|----------------------|---|
| Substantial Assurance | Priority 1 | 0 |
| | Priority 2 | 3 |
| | 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, re-interpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, re-interpretation, 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 A Growth Zone in central Croydon was approved by the Cabinet on 11th July 2016. The Croydon Growth Zone uses a Tax Increment Financing (TIF) model which harnesses business rates growth to enable borrowing to finance new infrastructure schemes. The schemes are expected to provide over 23,000 new jobs and at least 10,000 new homes of different tenures over a period of 25 years.
- 1.2 The full Growth Zone programme consists of projects costing £520 million, which will be partly financed by a loan of £309.9 million to be obtained by the Council. The balance of £210.1 million will be contributions from Transport for London (TfL), the Greater London Authority (GLA) and planning obligations. The programme originally contained 39 projects, but another five projects were added as a result of the mayor of London's Transport strategy (2017).
- 1.3 In December 2017, the Cabinet approved funding of £4.0 million for initial infrastructure projects. The Cabinet approved further funding of £166.1 million for the first phase of Growth Zone projects in October 2018. These projects are due to be delivered by March 2023. The Council expects the entire Growth Zone programme to run until approximately 2043.
- 1.4 The Growth Zone has a Steering Group, which is supported by a Working Group and by the following sub-groups:
 - Construction and Logistics Sub-Group
 - Finance and Resources Sub-Group
 - Inward Investment, Marketing and Tourism Sub-Group
 - Parking and Delivery Management Sub-Group
 - Public Realm and Culture Sub-Group
 - Energy/Smart City Sub-Group
 - Social Infrastructure Sub-Group
 - Transport and Infrastructure Sub-Group
- 1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

2. Key Issues

| Priority 2 Issues |
|--|
| There were no detailed terms of reference for all but one of the Sub-Groups on SharePoint. (Issue 1) |
| Documentation held on SharePoint for each Sub-Group was inconsistent and generally insufficient (e.g. lack of meeting notes). (Issue 2) |
| The Communications Strategy on SharePoint was a draft version and was not complete. (Issue 3) |

There were no Priority 3 issues.

3. Actions and Key Findings/Rationale

| Control Area 1: Governance Arrangements | | Detailed Finding/Rationale – Issue 1 |
|--|--|---|
| Priority | Action Proposed by Management | |
| 2 | Detailed and defined ToR to be populated for each sub-group including correct hierarchy and responsible persons. Programme office to ensure in place for January 19. | <p>Detailed terms of reference for sub-groups help to ensure that these groups concentrate on key issues and appropriately assist the delivery of the Growth Zone programme.</p> <p>Examination of documentation held on SharePoint identified that detailed terms of reference for only one sub-group (Energy/Smart City) were available and these terms of reference included three directors no longer working for the Council as members of the sub-group.</p> <p>It was noted that the Growth Zone Governance Arrangements document (February 2017) included a description of the purpose of each sub-group, but in many cases this only consisted of two or three bullet points.</p> <p>Where detailed terms of reference for sub-groups are not available, there is a risk that the sub-groups may not make sufficient contributions to the effective delivery of the Growth Zone programme.</p> |
| Responsible officer | Deadline | |
| Programme Manager Growth Zone | 31/01/2019 | |

| Control Area 1: Governance Arrangements | | Detailed Finding/Rationale – Issue 2 | | | | |
|--|--|--|-----------------|----------------------------------|------------|--|
| Priority | Action Proposed by Management | | | | | |
| 2 | <p>Programme office to ensure key/relevant documentation is held on each sub-group SharePoint folder, this is to be reviewed quarterly to ensure compliant. First review will be undertaken in Q4 18/19. Working group has been established with attendance required of each sub-group lead to ensure all have a full understanding of deliverables and is also an opportunity to share information.</p> | <p>Holding appropriate documentation on SharePoint helps to ensure that all Growth Zone sub-groups are fully aware of work being done by other sub-groups.</p> <p>Examination of documentation held on SharePoint by individual sub-groups identified that there was no consistent approach to the retention of key documents. For example, notes of sub-group meetings were only available for one group (Parking & Delivery Management Group). Meeting agendas were available for the Construction & Logistics and Smart City Sub-Groups, but were not accompanied by meeting notes. The SharePoint folders for three sub-groups (Social Infrastructure, Finance & Resources and Inward Investment, Marketing and Tourism) were almost empty. It was also noted that minutes of Steering Group meetings between 25th May 2017 and 21st June 2018 were absent from the programme wide SharePoint site.</p> <p>Where sub-group records held on SharePoint are incomplete, there is a risk that key records may be lost resulting in a lack of audit trail. There is also a risk that sub-groups may not have a full understanding of work being carried out by other sub-groups, resulting in lack of co-ordination of project work.</p> | | | | |
| | <table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>Programme Manager Growth Zone</td> <td>31/03/2019</td> </tr> </tbody> </table> | Responsible officer | Deadline | Programme Manager Growth Zone | 31/03/2019 | |
| Responsible officer | Deadline | | | | | |
| Programme Manager Growth Zone | 31/03/2019 | | | | | |

| <u>Control Area 1: Governance Arrangements</u> | | | | | |
|---|---|----------------------------|-----------------|----------------------------------|------------|
| Priority | Action Proposed by Management | | | | |
| 2 | <p>Draft communications strategy to be formally finalised with populated timeline for future years activities/events. In conjunction with the web pages to be updated to reflect.</p> | | | | |
| | <p>Detailed Finding/Rationale – Issue 3</p> <p>An effective Communications Strategy helps to ensure that the public are fully informed of major developments taking place in Croydon.</p> <p>Examination of the Communications Strategy on SharePoint identified that it was a draft version, with some items highlighted in yellow (indicating that further work was required). In particular, the Key Events Timeline table only showed events for 2017/18 and March 2017; the columns for the years 2018/19 to 2020/21 were blank.</p> <p>Where the Communications Strategy is not finalised, there is a risk that the objectives of the Communications Strategy may not be achieved, resulting in reduced resident satisfaction and possible damage to the Council's reputation.</p> | | | | |
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TERMS OF REFERENCE

Growth Zone

1. INTRODUCTION

- 1.1 A Growth Zone in central Croydon was approved by the Cabinet on 11th July 2016. The Croydon Growth Zone uses a Tax Increment Financing (TIF) model which harnesses business rates growth to enable borrowing to finance new infrastructure schemes. The schemes are expected to provide over 23,000 new jobs and at least 10,000 new homes of different tenures over a period of 25 years.
- 1.2 The full Growth Zone programme consists of projects costing £520 million which will be partly financed by a loan of £309.9 million. The balance of £210.1 million will be contributions from Transport for London (TfL), the Greater London Authority (GLA) and planning obligations.

2. OBJECTIVES AND METHODOLOGY

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment relating to the Growth Zone.
- 2.2 In order to achieve the overall objectives, a risk based systems audit approach will be carried out, documenting and evaluating the actual controls against those expected and based on this, appropriate testing will be conducted.
- 2.3 The key findings, conclusions, and subsequent recommendations arising will be presented at an exit meeting, followed by the circulation of a draft report for consideration by management, prior to agreement and issue of the final audit report.

3. SCOPE





- 3.1 This audit examined the Council's arrangements for the following areas relating to the Growth Zone (with number of recommendations made in each area):

| Control Areas/Risks | Recommendations Made | | |
|--|----------------------|------------------------|---------------------|
| | Priority 1 (High) | Priority 2 (Medium) | Priority 3 (Low) |
| Governance Arrangements | 0 | 3 | 0 |
| Identification of Infrastructure Schemes | 0 | 0 | 0 |
| Sources of Funding | 0 | 0 | 0 |
| Delivery Plan | 0 | 0 | 0 |
| Programme Monitoring | 0 | 0 | 0 |
| Budget Monitoring | 0 | 0 | 0 |
| Reporting | 0 | 0 | 0 |

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

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 consistently 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 which may put this achievement at risk. |
|  | Limited Assurance | There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk. |
|  | No Assurance | Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage. |

Priorities assigned to recommendations are based on the following criteria:

| | |
|--------------------------------|---|
| Priority 1 (High) | Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk. |
| Priority 2 (Medium) | Control weakness that represent an exposure to risk and require timely action. |
| Priority 3 (Low) | Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice. |

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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