

Final Internal Audit Report

Coast to Capital

May 2018

Distribution: Executive Director of Resources (Final Only)
 Director of Finance, Investment and Risk
 Accountancy Manager

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	3
	Priority 3	0

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd 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 Public Sector Internal Audit Ltd. 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 Coast to Capital (C2C) is a business led collaboration between private and public sectors across a diverse area including: the London Borough of Croydon; East Surrey; Gatwick Diamond; Brighton & Hove; Lewes and West Sussex.
- 1.2 An Accountable Body Agreement is in place which is signed between C2C and the London Borough of Croydon. The agreement stipulates that the Council will hold the 'Growing Places Fund, one of the grants issued to C2C by the Government. This fund is designed to be used as a capital platform where C2C can issue loans greater than £250,000 to businesses and enterprises as a way to encourage growth and productivity in the area. The repayments are then fed back into the Growing Places Fund and 'recycled' to fund further projects and businesses.
- 1.3 When a loan has been agreed by C2C, a host of information is sent to the Accountancy team in the Council. This includes the signed contract; sign off from the C2C investment board; repayment conditions; due diligence papers and summary documents relating to interest payments and the firm being loaned to. Once the Accountancy team are happy with the submitted information, the payment is then appropriately authorised and paid to the C2C solicitor, within five working days, who issues the payment to the borrower.
- 1.4 The Accountable Body Agreement outlines the requirement of Croydon Council to submit a return on the position of the fund, including interest accrued, expenditure and income on a monthly, quarterly and annual basis.
- 1.5 The objectives, methodology and scope are contained in the Audit Terms of Reference at Appendix 1.

2. Key Issues

Priority 2 Issues

The Accountable Body Agreement states that Croydon Council should receive Capital Payment Control Sheets prior to any Investment Committee meetings, however no such document has been provided to the Council, **(Issue 1)**.

Five out of the five payments tested were not paid within five working days of being initially requested, **(Issue 2)**.

Reports on the Growing Places Fund held by Croydon Council are not submitted on a monthly and quarterly basis as per the Accountable Body agreement, **(Issue 3)**.

3. Actions and Key Findings/Rationale

Control Area 2: <u>Compliance with grant conditions</u>		Detailed Finding/Rational – Issue 1
Priority	Action Proposed by Management	
2	For each investment a repayment schedule was provided, some were wrongly submitted to an ex-employee. Arrangements with Coast to Capital have been amended and Coast to Capital are submitting the relevant documents to the Council.	<p>The Accountable Body Agreement between Croydon Council and Coast to Capital, Schedule 2, states that "A Capital Payment Control Sheet will be maintained and updated on a monthly basis by C2C staff and a copy given to Croydon Council at least three working days before every Investment Committee meeting".</p> <p>During the audit, it was established that Croydon Council has not been provided with Capital Payment Control sheets by C2C.</p> <p>Where Capital Payment Control sheets are not received and reviewed by the Council, there is a risk that the Council is unaware of expected payments and planned loans by C2C, which may result in incorrect funding being provided.</p>
Responsible officer	Deadline	
Head of Accountancy / Coast to Capital	Completed	

Control Area 4: Expenditure	
Priority	Action Proposed by Management
2	<p>Processes have been reviewed and the Council Finance team will ensure that the 5 day turnaround time is adhered to, this is subject to the correct data being submitted.</p>
	<p>Detailed Finding/Rational – Issue 2</p> <p>The Accountable Body Agreement between Croydon Council and Coast to Capital states that ‘...payment is to be made by the Council within five working days from the date of sending the e-mail’ for requests of loan drawdowns.</p> <p>Testing of a sample of five payments made by Croydon Council from the Growing Places fund, established none of these payments were made within five working days, as follows:</p> <ul style="list-style-type: none"> - £714,000 [redacted] in seven working days; - £1,479,000 [redacted] in eight working days; - £1,106,700 [redacted] in eight working days; - £2,080,000 [redacted] in eight working days; and - £100,000 [redacted] in six working days. <p>Where payments are not made within the required timescales, the Council is in breach of the Accountable Body Agreement which may result in reputational damage.</p>
Responsible officer	Deadline
Head of Accountancy	Completed

Control Area 5: Monitoring and grant reporting/claiming

Priority	Action Proposed by Management	Detailed Finding/Rational – Issue 3
2	Processes have been reviewed and reports are produced and sent to C2C in accordance with the AB agreement.	<p>The Accountable Body agreement between Croydon Council and Coast to Capital states that Croydon Council is required to submit '<i>...a simple monthly report to the C2C Growing Places Funding Manager on the current level of the fund movements</i>' and '<i>...a quarterly report to C2C (Coast to Capital) Investment Committee/Board - aggregation of monthly reports</i>'.</p> <p>The last quarterly report was produced for the month ending 28 February 2017 and an annual return was produced for the period ending 31 March 2017, however no subsequent report(s) had been produced and submitted at the time of the audit in July 2017. Discussion established that monthly reports are not submitted to C2C.</p>
Responsible officer	Deadline	
Head of Accountancy	Completed – arrangements are in place	Where quarterly and monthly reports are not produced and submitted to Coast to Capital, there is a risk of non-compliance with the Accountable Body Agreement which may result in reputational damage.

TERMS OF REFERENCE

Coast to Capital

1. INTRODUCTION

- 1.1 Coast to Capital is a business-led collaboration between the private, public and education sectors across a diverse area including; the London Borough of Croydon; East Surrey; Gatwick Diamond; Brighton & Hove; Lewes and West Sussex.
- 1.2 Croydon Council can lobby for funding and grants to help stimulate growth within the Borough. Projects are also discussed and agreed between the partners of the scheme as a way to pool funds and take advantage of the large backing the scheme has.
- 1.3 Croydon Council is the 'accountable body' of the scheme and is in charge of ensuring that the funds are received and distributed according to agreements between the collaborators.
- 1.4 As part of the agreed 2017/18 Internal Audit Plan, an internal audit of Coast to Capital has been 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 for each area included in the scope:
- Document and evaluate the risks and controls for each process;
 - Walkthrough the processes to consider the key controls;
 - Undertake sufficient testing of controls operating, on a representative sample basis; and
 - Reach a conclusion on the effectiveness of the controls operating and report.

3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Regulatory, Organisational and Management Requirements	0	0	0
Compliance with grant conditions	0	1	0
Income	0	0	0
Expenditure	0	1	0
Monitoring and grant reporting/claiming	0	1	0
Total	0	3	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.

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 Public Sector Internal Audit Limited accepts no responsibility and disclaims all liability to any third party who purports to use or reply 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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