

Final Internal Audit Report

External Funding Team

June 2020

Distribution: Executive Director of Place (Final Only)
Director Growth, Employment and Regeneration
Interim Head of Economic Development
External Funding Team Manager

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

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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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Executive Summary

1. Introduction

- 1.1 Croydon Council's (Council) External Funding team's key role is to maximise external funding opportunities to support the delivery of the Council's key actions and strategic priorities including promoting Croydon as a pivotal growth location and attracting significant funding and investment to the borough. The external funding sources include, for example: London Economic Action Partnership (LEAP), Local Enterprise Partnerships (LEPs), Central Government, Lottery Funding and European Funding.
- 1.2 The External Funding team also develops relationships with partnership and funding agencies and builds a network of likeminded stakeholders interested in growth. This includes relationships with the London LEP and Coast to Capital LEP and with South London Partnership (Croydon, Merton, Kingston, Sutton and Richmond).
- 1.3 Key to success in securing grants is ensuring sufficient capacity within the team to submit bids within tight deadlines, appropriately meeting funders' criteria and collaborating closely with partners.

2. Key Issues

Priority 1 Issue

A service plan and strategy and/or policies and procedures to provide a framework of how the External Funding Team operates was not in place. **(Issue 1)**

Priority 2 Issues

The '*Summary of Funding Secured To Date*' was not being consistently reported in the Growth Board 2018/19 reports from quarter to quarter. **(Issue 2)**

Formal lesson learnt review is not undertaken for each project. **(Issue 3)**

There were no Priority 3 issues.

3. Action and Key Findings/ Rationale

Control Area 1: Management, Organisational and Regulatory Requirements		
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 1
1	<p>The service provides external funding expertise and technical support to teams in the Place Department, which in turn deliver the objectives under individual service plans. For this reason, senior management felt that a strategy and service plan for EFT would only serve to duplicate individual service plans.</p> <p>However, the need to establish a framework for delivery, with stretch targets, risk profile and benchmark indicators is welcome.</p> <p>A strategy and an action plan will be put into place in the new financial year. This will align with the Economic Growth / GER service plan, the corporate and community plans. The strategy will include:</p> <ul style="list-style-type: none"> • Key performance indicators including annual stretch targets on the success rate of bids submitted • Croydon’s public funding share (by funding body) benchmarked against London boroughs, and including an action plan to ensure we optimise the amount of public funding that is available. 	<p>The Council is increasingly looking to secure additional funding from external sources (i.e. other than its own budgets) to help meet priorities and those of the community. The External Funding Team’s remit is to maximise external funding opportunities and to support Services across the Council with the delivery of funding bids.</p> <p>A service plan and strategy and/or policies and procedures were not in place to provide a framework and protocol for the coordination and monitoring of the Council’s external fund bidding activities.</p> <p>Discussion with the External Funding Team Manager established that consent from the Director of the relevant division was obtained before opting to proceed with any funding bids, but agreed that there was a lack of formal policy or procedures. Furthermore, that there had been some funding bids pursued where it was felt that the funding criteria had not been properly met and therefore afforded a limited chance of success.</p> <p>Without a service plan and strategy and/or policies and procedures in place to provide a framework, it is difficult to measure whether the Team is achieving objectives and expectations, to ensure that the Team is adding value and that the Team’s involvement in funding bids is justified.</p>

	<ul style="list-style-type: none"> • Detail of priority projects in the Place department (for which funding is sought) supported with a forward funding strategy to ensure a targeted approach • Detail regarding internal resourcing and governance structures needed to ensure delivery. 	
Responsible officer	Deadline	
External Funding Team Manager	TBC 2020	

Control Area 6: Management Reporting																																		
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2																																
2	<p><u>A bid tracking system (funding log)</u> has been developed and is currently in use. It provides a much more detailed account of the bidding process and the milestones from the development of a bid, application stage to grant agreement / contract stage.</p> <p>The system does not count a bid as a success until the grant agreement has been signed and the first tranche of funding has been paid / claimed.</p> <p>This will allow the team to report on bid milestones achieved (bids submitted and the outcome) in each month whilst providing a final report on funding secured / success rate at year end.</p> <p>The tracker provides the basis for the <u>monthly progress reports</u> provided to the Head of service, Director and other executive leaders.</p>	<p>Quarterly reports which provide an update on the progress of funding applications, secured funding and future funding opportunities had been previously provided to The Growth Board.</p> <p>Examination of Growth Board reports for 2018/19 found that the ‘<i>Summary of Funding Secured To Date</i>’ were not being consistently reported from quarter to quarter. As shown in the table below, the ‘<i>Funding Applications Submitted</i>’ reduced from 14 in Q3 to 12 in Q4, while the number of ‘Successful’ funding applications were reported cumulatively and the value of ‘<i>Total External Funding</i>’ reduced significantly from £124mil to £3mil. It was also noted that the “CiTB Pathways to Construction” project had been reported as a successful bid outcome twice, once in Q4 2018/19 and the subsequently in Q2 2019/20 for the same funding.</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th>Year</th> <th>Funding applications submitted</th> <th>Successful</th> <th>Funding secured</th> <th>Pipeline</th> <th>Value of pipeline</th> <th>Success Rate</th> <th>Total External Funding</th> </tr> </thead> <tbody> <tr> <td>Q2</td> <td>2</td> <td>0</td> <td>0</td> <td>14</td> <td>£26.8m</td> <td>0%</td> <td></td> </tr> <tr> <td>Q3</td> <td>14</td> <td>3</td> <td>£205k</td> <td>12</td> <td>£120.4m</td> <td>21%</td> <td>£124.6m</td> </tr> <tr> <td>Q4</td> <td>12</td> <td>7</td> <td>£3.002m</td> <td>3</td> <td>£12.7m</td> <td>58%</td> <td>£3.002m</td> </tr> </tbody> </table> <p>The Funding Log spreadsheet maintained by the External Funding Team, which is used to record and monitor bid outcomes, did not match the Growth Fund quarterly reports, detailing that 22 Funding Applications were submitted with total Project Value of £43m for year 2018/19 and that there were 12 successful bids with funding awarded of £7m.</p> <p>The Funding Manager explained that the Growth Board report occurs quarterly and there may be a time lag, which accounts for the discrepancies. Furthermore the Growth Board has now been disbanded and the External Funding Team is no longer reporting to this forum. The Funding Manager considered the funding log to be a more accurate profile of bids including the bid stages and this log is now being shared with Head of Economic Development.</p> <p>Where management is not provided with accurate reports, there is a risk that it is not able to make informed decisions and that the success or not of the team cannot be easily gauged.</p>	Year	Funding applications submitted	Successful	Funding secured	Pipeline	Value of pipeline	Success Rate	Total External Funding	Q2	2	0	0	14	£26.8m	0%		Q3	14	3	£205k	12	£120.4m	21%	£124.6m	Q4	12	7	£3.002m	3	£12.7m	58%	£3.002m
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Control Area 6: Management Reporting						
Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 3				
2	A lessons learnt log has been incorporated into the team’s management framework. This is now updated regularly by team members and is informing the EFT strategy moving forward.	<p>Lessons learned is considered an important and value added aspect of project management, where it can be used to improve ongoing and future projects for the Council to secure funding. Positive aspects of funding bids can be further improved and replicated, while negative aspects can be avoided or better managed.</p> <p>Discussion with the Funding Manager established that feedback is sought from the funding provider when funding bids fail; however, no formal lessons learned reviews are undertaken for any funding bids to identify strength and weaknesses, i.e. the positive and negative experiences of a project.</p>				
	<table border="1"> <thead> <tr> <th>Responsible officer</th> <th>Deadline</th> </tr> </thead> <tbody> <tr> <td>External Funding Team Manager</td> <td>Complete</td> </tr> </tbody> </table>	Responsible officer	Deadline	External Funding Team Manager	Complete	Where proper lessons learned exercises are not being incorporated in the project management of the funding bid process, there is risk of repeating the same mistakes and project success is not being maximised with good practices implemented for future funding bids.
Responsible officer	Deadline					
External Funding Team Manager	Complete					

TERMS OF REFERENCE

External Funding Team 2019/20

1. INTRODUCTION

- 1.1 External funding refers to monetary resources received outside of core government grants, council taxes, business rates and fees, charges and contributions.
- 1.2 The External Funding team's key role is to maximize external funding opportunities to support the delivery of the Council's key actions and strategic priorities. The external funding sources include for example: London Economic Action Partnership (LEAP), Local Enterprise Partnerships (LEPs), Central Government, Lottery Funding and European Funding.
- 1.3 The External Funding team's priorities are promoting Croydon as pivotal growth location and attracting significant funding and investment to the borough. Besides, the team also developing excellent relationships with partnership and funding agencies for building network of likeminded stakeholders interested in growth. This includes leading on relationships with Local Enterprise Partnership (the London LEP and Coast to Capital LEP) and with South London Partnership (Croydon, Merton, Kingston, Sutton and Richmond).
- 1.4 Key to success in securing grants is ensuring sufficient capacity within the team to submit bids within tight deadline, appropriately meeting funders' criteria and collaborating closely with partners.
- 1.5 This audit is being conducted as part of the agreed Internal Audit Plan for 2019-20.

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 will examine the Council's arrangements for External Funding team and will include the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Management, Organisational and Regulatory Requirements	1	0	0
Identification of External Funding Opportunities	0	0	0
Opportunity Assessment and Bid Approval	0	0	0
Grant Claims, Returns and Sign Off	0	0	0
Monitoring of Funding Received	0	0	0
Management Reporting	0	2	0
TOTAL	1	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 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 identified issues 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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