

Final Internal Audit Report

Contract Management – Work and Health Programme

July 2022

Distribution: Corporate Director Sustainable Communities, Regeneration and Economic Recovery

Director of Planning and Sustainable Regeneration

Head of Employment, Skills and Economic Development

Health and Work Programme Manager

Corporate Director Resources and S151 Officer

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

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, 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.

Contents

Page

Executive Summary

1. Introduction	3
2. Key Issues	4

Detailed Report

3. Actions and Key Findings/Rationale	5
4. Priority 3 Issue	6

Appendices

1. Terms of Reference
2. Definitions for Audit Opinions and Identified Issues
3. Statement of Responsibility

1. Introduction

- 1.1. The South London Work and Health Programme (Programme) is intended to support up to 5582 residents of Croydon, Merton, Kingston, Sutton and Richmond into sustainable employment, targeting residents with disabilities and/or health conditions, the long term unemployed and specified disadvantaged groups. This programme was commissioned by the South London Partnership consisting of five London Boroughs including Croydon Council (Council), who are the Lead Authority.
- 1.2. As the Lead Authority, the Council led the procurement process on behalf of the participating boroughs. The agreed procurement strategy (CCB1284/17-18) was to source a provider through a Competitive Dialogue procedure for an initial five-year period with the possibility of a further two-year option to extend. A five-year contract for the provision of services related to the Work and Health Programme was entered into with Reed In Partnership Limited in March 2018.
- 1.3. The Programme contract is a Payment by Results (PbR) contract. The Payment Model for the Programme has been set up so that 30% of the contract value will be paid monthly to the Preferred Bidder over a set period of time in order to ensure that the minimum requirements of the Programme for the residents are being met. The Preferred Bidder will then receive Employment Outcome payments for each Resident that they successfully support into employment. There are up to two outcomes payable for residents who are supported into employment. If a resident achieves the lower earnings threshold which is set at the national minimum wage earnings level, the Preferred Bidder will receive a set payment. If the resident is then supported to achieve a higher earnings threshold which is set at the current London Living Wage level, the Preferred Bidder will then receive a second outcome payment. There is also an outcome payment for residents who are supported into sustainable self-employment.
- 1.4. The Council is responsible for managing and administering the Work and Health Programme across the subregion. Contract performance is reported to the South London Work & Health Programme Board.
- 1.5. The audit was undertaken working remotely. Further detail on the objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1. Although this audit commenced as part of the 2019/20 Internal Audit Plan, due to delays in receipt of information it was moved into 2020/21 and subsequently completed as part of the agreed Internal Audit Plan for 2021/22. The overall scope of this audit was to consider arrangements in place for contract management.

2. Key Issue

Priority 2 Issue

We asked for but could not be provided with a 'master listing' / 'register' of any 'service' complaints for the 2020 financial year to date. Additionally, review of the June, September, December 2019 and February 2020 MI reports that contained Reed's performance against the service standards noted that these reports did not indicate whether the complaints received by Reed had been responded to within the timeline stated in the complaints procedure. **(Issue 1)**

The Priority 3 issue is included in section 4 below.

3. Actions and Key Findings/Rationale

Control Area 4: Complaints, Deficiencies in Provision, Rectification and Default

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
2	<p>An up-to-date complaints register has now been received from the supplier. The supplier now uses Power BI to log any complaints. No complaints have been received since the move to the new system, therefore there are no complaints showing (last complaint received July 2020.)</p> <p>Going forwards, the supplier will be asked periodically to provide a copy of the complaints log to ensure it is accurate and corresponds to details recorded in participant files, as well as maintaining the requirement to report any complaints to the CMT.</p>	<p>The complaints procedure on the 'Better Working Futures South London' website details that, <i>'If you are unable to reach a solution with your Employment Adviser, your complaint, made in writing, will be passed to the local Business Manager who will investigate the complaint and aim to write back to you with their findings with five working days.'</i></p> <p><i>If the issue remains unresolved, it can be escalated to the Senior Operations Manager and then Operations Director. At each escalation, the Senior Operations Manager and Operations Director will complete an impartial assessment and provide written feedback within 10 working days.'</i></p> <p>We asked for but could not be provided with a 'master listing' / 'register' of any 'service' complaints for the 2020 financial year to date. Additionally, review of the June, September, December 2019 and February 2020 Management Information (MI) reports that detailed Reed's performance against the service standards noted that these did not indicate whether the complaints received by Reed had been responded to within the timeline stated in the complaints procedure. We acknowledge that we were provided with screenshots of two complaints that were stored on the Orion portal.</p> <p>There is a risk that complaints may not be investigated and addressed in a timely manner.</p>
Responsible Officer	Deadline	
Work and Health Programme Manager	Completed	

4. Priority 3 Issue

Action Proposed by Management	Detailed Finding/Rationale
<p><u>Control Area 5: Payments</u></p> <p>The findings are noted and the contract management team will ensure that in future, similar decisions are better documented for the avoidance of doubt.</p>	<p>Recording decisions made by the Programme Board accurately and completely in its meeting minutes will help ensure that they are properly evidenced.</p> <p>The minutes of the June 2019 Programme Board meeting detail that, <i>'Discussion concluded that effective performance management is best achieved by constructive dialogue and working together to resolve performance issues rather than simply defaulting in relation to unmet targets.'</i> While this provides evidence of the possibility of not deducting financial penalties was discussed by the Programme Board, it does not make it abundantly clear that any such action was specifically authorised.</p> <p>There is a risk that contractual penalties may not be deducted from invoice values without proper authorisation.</p>

AUDIT TERMS OF REFERENCE

Contract Management – Work and Health Programme

1. INTRODUCTION

- 1.1 The South London Work and Health Programme is intended to support up to 5582 residents of Croydon, Merton, Kingston, Sutton and Richmond into sustainable employment, targeting residents with disabilities and/or health conditions, the long term unemployed and specified disadvantaged groups. The agreed procurement strategy (CCB1284/17-18) was to source a provider through a Competitive Dialogue procedure for an initial 5 year period with the possibility of a further 2 year option to extend.
- 1.2 The funding for the Programme was derived from a £6.69m grant from the Department of Work & Pensions (DWP) for the initial 5 year period of the Programme. This grant was to be match funded by the European Social Fund (ESF) providing a total budget of £13.38M for the Programme's initial 5 year period. The funding was approved due to the DWP's devolving powers and funding to London sub-regions which enables Croydon as the Lead Authority to receive the funding on behalf of the South London Partnership boroughs.
- 1.3 As the Lead Authority, the Council led the procurement process on behalf of the participating boroughs in accordance with the agreed Memorandum of Understanding (MOU) and the Public Contract Regulations 2015. The MOU set out the agreement whereby any costs and risks are to be shared amongst the participating boroughs.
- 1.4 The Work and Health Programme contract is a Payment by Results (PbR) contract. The Payment Model for the Programme has been set up so that 30% of the contract value will be paid monthly to the Preferred Bidder over a set period of time in order to ensure that the minimum requirements of the Programme for the residents are being met. The Preferred Bidder will then receive Employment Outcome payments for each Resident that they successfully support into employment. There are up to 2 outcomes payable for residents who are supported into employment. If a resident achieves the lower earnings threshold which is set at the national minimum wage earnings level, the Preferred Bidder will receive a set payment. If the resident is then supported to achieve a higher earnings threshold which is set at the current London Living Wage level, the Preferred Bidder will then receive a second outcome payment. There is also an outcome payment for residents who are supported into sustainable self-employment.

Source: Cabinet 20 November 2017 – South London Work & Health Programme Contract Award
- 1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2020/21

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 included the following areas (and issues raised):

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Formation of Contract, Memorandum of Understanding (MoU), Compliance with the Organisation's Legal Requirements, Retention and Security of Contracts/MoU	0	0	0
Variations to Contract/MoU	0	0	0
Quality Control (including receipting of services provided)	0	0	0
Complaints, Deficiencies in Provision, Rectification and Default	0	1	0
Payments	0	0	1
Contract Performance Monitoring; Management Reporting and Performance Reporting (including Social Value)	0	*	0
Budgetary Control	0	0	0
Total	0	1	1





*Included in Control Area 4

Appendix 2

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 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 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, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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