

# Final Internal Audit Report

## Transformation Funding: Use of Funds (Corporate)

April 2025

Distribution:

- Programme Manager
- Financial Analyst
- Interim Transformation Team
- Former Head of Finance (ACE)
- Head of Finance (Corporate/ACE/Resources)
- Assistant Chief Executive
- Director of Transformation
- Director of Finance & Deputy S151 Officer
- Corporate Director, Resources & S151 Officer (final only)

Assurance Level	Issues Identified	
Limited	Priority 1	1
	Priority 2	2
	Priority 3	2

### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Forvis 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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## **1. Introduction**

- 1.1. Croydon Council (Council) has suffered from a number of long-term financial issues in recent years, which have resulted in Section 114 notices being issued under the Local Government Finance Act 1988 in November 2020, December 2020 and November 2022.
- 1.2. In recognition of the need for reform of the Council and to help ensure long-term financial stability and sustainable service delivery, the Council published a transformation plan titled Future Croydon: The Council's Transformation Plan 2024-2029 ("Plan") in April 2024.
- 1.3. The Plan outlines its objective to create a *"Council that continues to deliver its statutory responsibilities but does it in a way that:*
  - *Fundamentally transforms how we engage with residents and communities, fostering trust and promoting independence.*
  - *Provides a new customer experience, so that interacting with the council is seamless and hassle-free.*
  - *Significantly reduces our operating costs by just under £100m over the next four years through new digital technology enabling more effective business processes."*
- 1.4. The Council set aside funds in order to help achieve the objectives of the Plan. In 2023-24, a total of £14m was set aside (£10m from Revenue Budget + £4 from Reserves), and in 2024-25 a total of £6.8m was set aside (£5m from Revenue Budget + £1.8m from Reserves). The Medium-Term Financial Strategy from 2025/26 allocates transformation funding from the Capital Programme, with the funding targeted on major transformation programmes such as the Target Operating Model, Adults Living Independently Programme and the CYPE strategic partner programme. The Council has to move at pace to deliver its transformation programmes due to the deterioration of its financial position.
- 1.5. The use of these funds is subject to oversight from the Corporate Management Team (CMT) who meet monthly to provide strategic direction and decision-making for the delivery of the Plan. The CMT provide regular reports on progress and delivery to the Mayor's Advisory Board and the Improvement and Assurance Panel. CMT also report progress on a six-monthly basis to Cabinet.
- 1.6. The monthly Financial Performance Report to Cabinet contains a section reporting on the Transformation budget, allocations, spend and forecasts.
- 1.7. The audit was undertaken as part of the agreed Internal Audit Plan for 2024/25. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

## 2. Key Issues

### Priority 1 Issues

While a benefits methodology had been documented and communicated, it had not yet been fully embedded within the Council. Issues were found relating to benefits not being recorded nor baselined, accountable owners not being assigned to benefits, and a process to assure metrics reported by delivery partners not being defined. **(Issue 3)**

### Priority 2 Issues

The framework for the transformation programme had not been fully defined and documented. The Croydon Project Delivery Framework was still in draft with key areas such as the expected finance control practices and reporting practices yet to be outlined. Furthermore, the nuances of the transformation programme were not covered within the Delivery Framework document due to it being used across all projects. **(Issue 1)**

Key finance processes relating to the monitoring of budgets and spend control had not been documented. **(Issue 2)**

The Priority 3 findings are included under item 4 below.

### 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>(a) The Director of Transformation will review the appropriate framework and governance documents that support Transformation, and ensure these are finalised and distributed to relevant staff.</p> <p>(b) The Director of Transformation to share the findings of the Audit report with CDs and Directors to use as a training and development exercise in a face-to-face lunch/learn concept. This will be accompanied by the MHCLG guidance on the use of Transformation funding.</p>	<p><b>Expected Control</b></p> <p>A comprehensive documented framework is in place to govern the use of Transformation Funding to allow the effective allocation and utilisation of resources. The framework is accompanied by supporting guidance for key processes and is available to all relevant staff.</p> <p><b>Finding/Issue</b></p> <p>There were two main documents in place that defined the Transformation framework, namely the Croydon Project Delivery Framework and the Governance of Transformation paper (18 July 2024).</p> <p>The Croydon Project Delivery Framework (undated) was in draft at the time of audit fieldwork (October 2024). This set out the proposed governance, portfolio, programme, and project management principles, and control practices that should be followed by the Council. Transformation Projects were within the scope of this document, which extended to all projects and programmes across the Council.</p> <p>The Governance of Transformation Paper provides an overview of the governance arrangements established to deliver the Council's transformation and improvement.</p> <p>While both these documents provided a starting point, the framework for transformation had not been fully defined and documented. The Croydon Project Delivery Framework was still in draft at the time of the internal audit (October 2024) with key areas such as</p>

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Responsible Officer	Deadline	
Director of Transformation	30 June 2025	<p>the expected finance control practices and reporting practices yet to be outlined. Furthermore, the nuances of the transformation programme were not covered within the Delivery Framework document due to it being used across all projects, for example the role of CMT within the Delivery Framework document did not fully align to the Transformation Governance paper as the Delivery Framework document was not specific to transformation programmes.</p> <p><b>Risk</b></p> <p>Where the project management framework has not been fully defined, there is a risk of confusion, inefficiency, and poor coordination across the transformation programme leading to missed deadlines and budget overruns. Additionally, where governing documents – such as the Delivery Framework – are undated, there is a risk that outdated versions of the document will be used by staff, resulting in inconsistent working practices.</p>

**Control Area 3: Spending Control and Budget Monitoring**

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 2
2	As part of the refreshed Transformation governance model in 2025, a documented financial process will be agreed with the Director of Finance and the Finance leadership team.	<p><b>Expected Control</b></p> <p>Strict finance controls are in place to monitor transformation funding spend , including continued monitoring of the overall budget position, monitoring of actual spend against budget at a project and programme level and early intervention to prevent overspend.</p> <p><b>Finding/Issue</b></p> <p>Interviews with the Transformation and Improvement Finance Lead established that a number of key processes were performed each month to monitor spend on transformation programmes including:</p> <ul style="list-style-type: none"> <li>• Meetings between Budget Holders and Accountants to discuss all funding sources (including capital, revenue, and transformation funding);</li> <li>• Updates to project forecasts central programme records;</li> <li>• Review of actual spend to scrutinise the items charged to transformation cost codes; and</li> <li>• Compilation and review of financial reports for Directorates, CMT, Cabinet, and the Assurance Board.</li> </ul> <p>While evidence in the form of updated reports provided to CMT were shared with Internal Audit and demonstrate these processes, staff interviewed reported that none of the above processes have been documented. It was noted that the Croydon Project Delivery Framework included sections on reporting and budget monitoring, although this was a draft document not yet in use at the time of the audit (see Issue 1).</p>

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Responsible Officer	Deadline	Risk
Transformation Finance Lead	30 June 2025	Where the approach to key finance processes to monitor project / programme spend have not been documented, there is a risk of inconsistent approaches being adopted by the accountants and a lack of continuity if there is staff attrition in long term projects.

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**Control Area 4: Realisation of Benefits and Value for Money**

Priority	Action Proposed by Management	Detailed Finding/Rationale – Issue 3
1	<p>(a) We will review and refresh the Benefits Framework and process, which will then be subject to approval by CMT.</p> <p>(b) Once approved by CMT training to be rolled out to all staff who will use the methodology.</p>	<p><b>Expected Control</b></p> <p>A documented benefits methodology is in place that is applied consistently across all transformation programmes / projects. Expected benefits are defined at the initiation of a project with measurable metrics baselined and accountable owners assigned. The benefit methodology involves:</p> <ul style="list-style-type: none"> <li>• Ensuring the benefit is logged within a benefits register;</li> <li>• A tracking tool is used to log benefits realised to date;</li> <li>• Each benefit has a clearly assigned owner; and</li> <li>• Any risks to delivering the benefit are logged within the register.</li> </ul> <p><b>Finding/Issue</b></p> <p>Review found that the Council had developed and documented a Benefits Management Methodology (August 2023), which defined the phases of benefits management (from inception to closure / BAU), entry and exit criteria for each phase, and responsibilities in each phase. The Council used the project management tool Verto to record the progress of projects.</p> <p>In review of this area, the following were identified:</p> <ol style="list-style-type: none"> <li>1. While the benefits methodology was documented and communicated, it had not been fully embedded at the time of the internal audit (October 2024) within the Council. It was observed that work was underway to retrospectively define and baseline the benefits of projects and programmes initiated prior to the development of the methodology:</li> </ol>

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		<p>a. Review of Verto reports for a sample of six open projects found that only three projects had any benefits outlined. Furthermore, of these three, only one had quantified the intended benefits prior to approval (Note: others had listed intended outcomes, but these had not been quantified or baselined).</p> <p>b. Review of a Verto report as of 29 July 2024 found that only seven projects had recorded non-financial benefits and five had quantified financial benefits.</p> <p>2. Verto reports and the baseline benefits data collected retrospectively showed that accountable owners had not been assigned for benefits.</p> <p>3. A key element of the Transformation Plan was to engage external delivery partners to assist in the redesign of the Council and part of the delivery partners' consideration was dependent on the delivery of benefits against targets. It is intended that the delivery partners will define the benefits they are expected to achieve; however, the process and responsibility for tracking the benefits through to completion had not yet been defined. While it is assumed that the delivery partners will track and report on benefits, the Council had not yet defined how assurance would be gained on any reported benefits or what would be done to monitor benefits internally.</p> <p><b>Risk</b></p> <p>Where the benefits methodology has not been embedded in the Council, there is a risk that the expected benefits may not be consistently identified, measured or realised.</p> <p>Where the Council do not gain assurance on the metrics reported by delivery partners there is a risk that the metrics are misreported leading to unnecessary spend.</p>
Responsible Officer	Deadline	
Director of Transformation	<p>(a) 31 March 2025</p> <p>(b) 30 June 2024</p>	

#### 4. Priority 3 Issues

Agreed action	Findings
<p><b><u>Control Area 1: Legislative, Organisational and Management Requirements</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>The key templates will be reviewed and updated if necessary.</p> <p><b><u>Responsible Officer:</u></b> Programme Manager (BG)</p> <p><b><u>Deadline:</u></b> 30 April 2025</p>	<p><b>Expected Control</b></p> <p>Templates for project initiation documents and supporting guidance defining the roles and responsibilities are in place and regularly reviewed to ensure these align with working practices.</p> <p><b>Issue/Finding</b></p> <p>A Standard Project Initiation Template was in place and available through the Corporate SharePoint, however the version of the document on SharePoint at the time of audit (October 2024) stated that it was due for review in April 2020, making it over four years out of date.</p> <p><b>Risk</b></p> <p>Where key project documentation is not updated periodically or version controlled, there is a risk that staff and service users may follow outdated guidance or be unsure if the guidance is still relevant.</p>
<p><b><u>Control Area 5: Monitoring and Reporting Arrangements</u></b></p> <p><b><u>Action proposed by management:</u></b></p> <p>For the introduction of the refreshed Transformation governance model in 2025, a ToR for each governing body will be requested</p>	<p><b>Expected Control</b></p> <p>For each project, a Terms of Reference (ToR) is in place that outlines the composition, role and meeting frequency of the governing body for that project.</p> <p><b>Issue/Finding</b></p> <p>For a sample of four projects, terms of reference (ToRs) for the relevant governance bodies were requested. Whilst received for three projects, none</p>

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Agreed action	Findings
<p>and will be stored with the project information on Verto 365.</p> <p><b><u>Responsible Officer:</u></b> Programme Manager (BG)</p> <p><b><u>Deadline:</u></b> 30 June 2025</p>	<p>were provided for the Target Operating Model project, though a slide outlining details of the governance bodies (e.g. members, purpose, frequency) was provided.</p> <p>For the three ToRs that were received, all were at least one year past the date of last review (Jan 23, July 23, and August 23).</p> <p><b>Risk</b></p> <p>Where terms of reference are not in place for the governing body of a project, there is a risk of inadequate oversight or control, resulting in poor project delivery.</p>

## AUDIT TERMS OF REFERENCE

### Transformation Funding

#### 1. INTRODUCTION

- 1.1 Croydon Council (Council) has suffered from a number of long-term financial issues in recent years, which have resulted in Section 114 notices being issued under the Local Government Finance Act 1988 in November 2020, December 2020 and November 2022.
- 1.2 In recognition of the need for reform of the Council to help ensure long-term financial stability and sustainable service delivery, the Council published a transformation plan titled Future Croydon: The Council's Transformation Plan 2024-2029 in April 2024.
- 1.3 The Plan outlines its objective to create *“a council that continues to deliver its statutory responsibilities but does it in a way that:*  
*Fundamentally transforms how we engage with residents and communities, fostering trust and promoting independence.*  
*Provides a new customer experience, so that interacting with the council is seamless and hassle-free.*  
*Significantly reduces our operating costs by just under £100m over the next four years through new digital technology enabling more effective business processes.”*
- 1.4 The Council has set aside funds in order to help achieve the objectives of the Transformation Plan. In 2023-24, a total of £14m was set aside (£10m from Revenue Budget + £4 from Reserves), and in 2024-25 a total of £6.8m was set aside (£5m from Revenue Budget + £1.8m from Reserves). The Medium-Term Financial Strategy assumes that £5m per year will be allocated for transformation in future years.
- 1.5 The use of these funds should be subject to careful oversight and prudent use with appropriate spend control and reporting arrangements in place. This should bear in mind that, while investment is required to achieve the Transformation Plan, the long-term objective of the plan is to transform the Council to be sustainable in the long-term, both financially and in terms of service delivery.
- 1.6 The monthly Financial Performance Report to Cabinet contains a section reporting on the Transformation budget, allocations, spend and forecasts.
- 1.7 This audit was part of the agreed Internal Audit Plan for 2024/25.

#### 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 use of transformation funding, was undertaken as part of the 2024/25 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	1
Allocation of Funds (including justification, calculation of funding needs and supporting management accounting)	0	0	0
Spending Control and Budget Monitoring (specifically including the appropriateness of spending)	0	1	0
Realisation of Benefits and Value for Money	1	0	0
Monitoring & Reporting Arrangements	0	0	1
<b>Total</b>	<b>1</b>	<b>2</b>	<b>2</b>

## 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:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	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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