

## The Not-for-Profit Audit Process

### 1. Introduction and Rationale

Contracts with the Not-for-Profit (NfP) sector now constitute an increasingly important proportion of the LSC's provision of legal services, particularly in the debt and welfare benefits categories of law. As such, it is essential that we implement an effective method of auditing NfP contracts, that allows us to efficiently target resources within a fixed budget, encourage contracted agencies to make improvements in quality of service and value for money, and improve our own understanding of the particular issues faced by them in delivering contracted services.

We have used our experience and feedback from the educational audits, as well as taking into account the findings of research commissioned by the LSC, in particular the Institute of Advanced Legal Studies report, to devise a revised approach to auditing the sector.

We have developed this process, which corresponds to the LSC's risk-based approach to auditing, in consultation with the ASA and the NfP networks. It focuses upon assuring quality of service, as well as addressing some issues pertaining to cost and value for money. The process will be as open and flexible as possible, and allow us to both encourage agencies to improve the quality and efficiency of the services they provide under the contract, and improve our own understanding of the specific issues faced by the sector.

We anticipate that the new approach will bring the following benefits for both the LSC and NfP agencies:

- **More efficient.** On-site audits will be tailored to individual suppliers. This will reduce the time demands on many agencies and will enable us to target our management effort where it is most needed.
- **More effective.** We will produce consistent and meaningful assessments of your performance so both you and LSC staff are better informed and aware of where improvements are required.
- **Transparent and fair.** We will give you clear information about the objective criteria we are using to monitor and measure performance, and determine audit schedules.
- **Comprehensive overview and understanding of your work.** Your Account Manager will take a holistic approach to quality, contract

compliance, and value for money, and will give constructive feedback on your overall performance.

The new approach is NOT a method of making cutbacks. We know that many of you are concerned that suppliers which deliver a poor service damage the reputation of the NfP sector. The audit process is designed to allow us to recognise, value, and favour good suppliers, and offer support and encouragement to those who need to make improvements in order to achieve the required standard.

It is also important to note that we have not made any amendments to the NfP Contract or the Specialist Quality Mark requirements in the development of the audit process.

The process will usually follow 3 key stages:

1. Risk assessment and audit prioritisation
2. A file audit
3. An on-site audit

## **2. Risk Assessment and Audit Prioritisation**

We have produced a report known as SOOPER (Supplier Out-Of-Profile Exception Report) which assesses the potential risk each agency presents to either clients or the fund using a series of core parameters. Each parameter has been accorded a points “weighting” dependent on its relative importance in the risk assessment process (see list below).

We have also established thresholds for each parameter based on analysis of data for the sector as a whole. Using information that you report to us, we have assessed all suppliers against each of the risk parameters.

Where an agency's “rating” for a given parameter falls outside of the relevant threshold, the agency is considered to be out-of-profile, and they are awarded the points weighting for that factor. An overall risk score is generated for each agency, which is the sum of the points awarded under each parameter. The report ranks all NfPs in order of overall risk score, with the highest scoring agencies at the top of the list. Below is a list of the risk parameters together with their weightings:

- Size of contract (5 points)
- Performance against contract (worked casework hours against contracted casework hours) (5 points)
- Average case time (in Welfare Benefits and Debt categories only) (4 points)
- Percentage of clients for whom more than one matter has been reported in the same category of law (3 points)
- Level 1 time reported as a percentage of overall casework hours (2 points)

- Disbursements expenditure per case (analysed separately for Welfare Benefits, Debt, Housing, Immigration) (1 point).

We intend, during the first round of audit activity, to focus on the 50 agencies with the highest risk scores. However, it should be noted that having a high risk score does not necessarily mean that an agency is performing poorly or is in breach of the NfP Contract.

### **3. The file audit**

We have developed a file audit question framework that enables us to effectively evaluate the work that agencies are performing, and to identify issues which need to be discussed further at the subsequent audit visit. The framework consists of a number of questions that relate to core contract compliance issues, e.g. scope and sufficient benefit, supplemented by a further set of questions, relating to quality of service, which have been extracted directly from the Specialist Quality Mark requirements. No changes to the Contract or SQM have been made during the development of the question framework.

Agencies selected for audit on the basis of their risk assessment score will receive a letter, requiring them to submit a sample of 20 completed case files to the LSC within 14 days. We will select a random sample of files and take steps to ensure that these are representative of the supplier's work profile.

All of the files will be audited against the file audit questions by a dedicated team of NfP file auditors. The file audit will be completed as soon as possible upon receipt by us of the complete file sample; files will be returned to agencies following completion of the audit.

The results of the file audit will determine the focus and length of the follow-up on-site audit.

We will provide all agencies with full details of the file audit results. There will also be opportunity, at the on-site audit, for discussion of the findings.

### **4. The On-Site Audit**

- ⇒ All agencies that have received a file audit will also have an on-site audit, to be carried out by one of the four Account Managers on the Central Audit Team. The Account Manager (AM) will contact the agency in advance to arrange a suitable date for this audit.
- ⇒ The scope of the audit will be largely determined by the results of the file audit, although the findings of the risk assessment process will also be taken into account. The AM will contact the agency before the date of the audit to inform them of the planned scope.
- ⇒ Where we have assessed that you are performing well, the AM will acknowledge your achievements, discuss any areas of concern, and

agree appropriate steps to address them. Other areas of mutual interest will also be discussed, including future business development and areas where the LSC needs to improve.

- ⇒ If we have significant concerns about a supplier's performance, we will take a more rigorous approach. AMs will scrutinise these agencies in depth at the on-site audit, and seek substantive evidence that they are striving to comply with their contracts, are addressing quality concerns, and do not present a risk to clients or the public funds that pay for their services.

## **5. The Appeals Process**

As the file audit focuses on information gathering to inform the subsequent on-site audit, there are no sanctions that may be raised solely as a result of the file audit, and therefore there is no need for an appeals process.

Detailed information on the sanctions that may be applied following the on-site audit, together with the appeals/representations processes which will apply where Contract Notices or SQM sanctions have been raised, can be found in Part E of the NfP Standard Terms and in Sections 6 and 7 of the SQM.

## **6. Further Support and Guidance**

The audit process has been developed in consultation with the Advice Services Alliance and the networks. For further information, please contact your network representative.