

# The Audit Plan for Croydon Council

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**Year ended 31 March 2015**

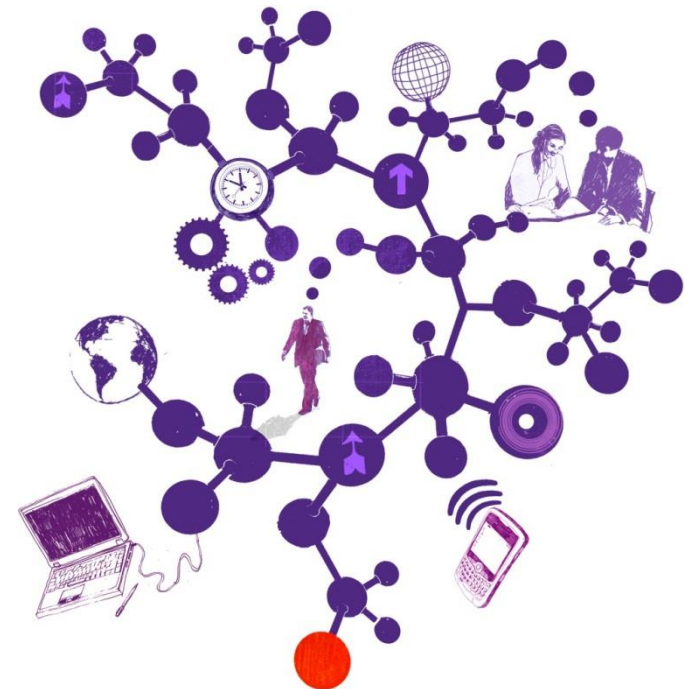
March 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

## Challenges/opportunities

### The Croydon Challenge and future financial pressures

- The Croydon Challenge programme plans to transform your services by focussing on more efficient and more effective service delivery.
- Future funding settlements are likely to contain further reductions and there remains the ongoing need to address the projected £78m budget gap from 2016/17 to 2018/19.
- Over £14m of transformational savings have been identified for 2015/16.

### Growth Zone and urban regeneration

- Croydon is undergoing significant urban regeneration led by a proposal to become a 'Growth Zone' and a number of significant redevelopment projects. You are coordinating public and private investment through a Revolving Investment Fund.
- The government has recently announced support for your 'Growth Zone' case.

### Changing responsibilities and new ways of working

- Development of new working arrangements to deliver the requirements of the Care Act 2014 and implementing the Better Care Fund.
- Ongoing impact of housing shortages, homelessness and welfare reform.

### Implementation of One Oracle

- A new general ledger system was introduced in August 2014 under the One Oracle project. This was in conjunction with five other London borough councils.
- The system provides finance, procurement, HR and payroll.
- The aim is to deliver efficiencies, service and data quality improvements and enable the sharing of back office functions.
- A significant transfer of data to the new system was required.

### Finance and accounting

- Following difficulties in last year's closedown, you are working towards improving capacity within the finance team to deliver the financial accounts to a high quality, in a timely and responsive manner.
- Local Government accounts tend to be complex lengthy and difficult to follow. Officers have expressed an interest in making the accounts more user-friendly by removing immaterial notes, removing duplicate information and enhancing the overall presentation.

## Our response

- We will review the planning assumptions within your 2015/16 budget and Medium Term Financial Plan as part of our work on your arrangements for financial resilience.

- We will discuss your plans through our meetings with senior management and those charged with governance.
- We will consider progress to forward fund the infrastructure investment required.

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.
- We will consider progress made in delivering the requirements of the Care Act 2014 and Better Care Fund.

- We will review the transfer of data and information from the predecessor system to the One Oracle project, including a review of the control environment.
- We will consider the outcomes from the new system including improvements to the financial reporting process and workforce information.

- We will discuss your closedown process and seek to resolve potential issues at an early stage.
- We will meet with your finance team and discuss methods which will assist you to improve the presentation of your accounts, providing guidance and support where necessary. We will feed back on the draft presentation to help you present a clear picture of your financial performance.

# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### Financial reporting

- Changes to the CIPFA Code of Practice.
- Changes to the recognition of school land and buildings on local authority balance sheets.
- Future changes announced in relation to accounting for transport infrastructure assets.

### Legislation

- Local Government Finance settlement resulting in a loss of funding of 13.9% for you in 2015/16.

### Corporate governance

- Annual Governance Statement (AGS).
- Explanatory foreword.

### Financial Pressures

- Managing service provision with less resource within a changing environment.
- Progress against savings plans.

### Other requirements

- You are required to submit a Whole of Government accounts pack on which we provide an audit opinion.
- You submit the Teachers' Pensions return on which audit certification is required.

## Our response

We will review whether

- you comply with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing.
- schools are accounted for correctly and in line with the latest guidance.
- appropriate processes are in place in preparation for the change in basis of valuation of infrastructure assets through discussion with management.

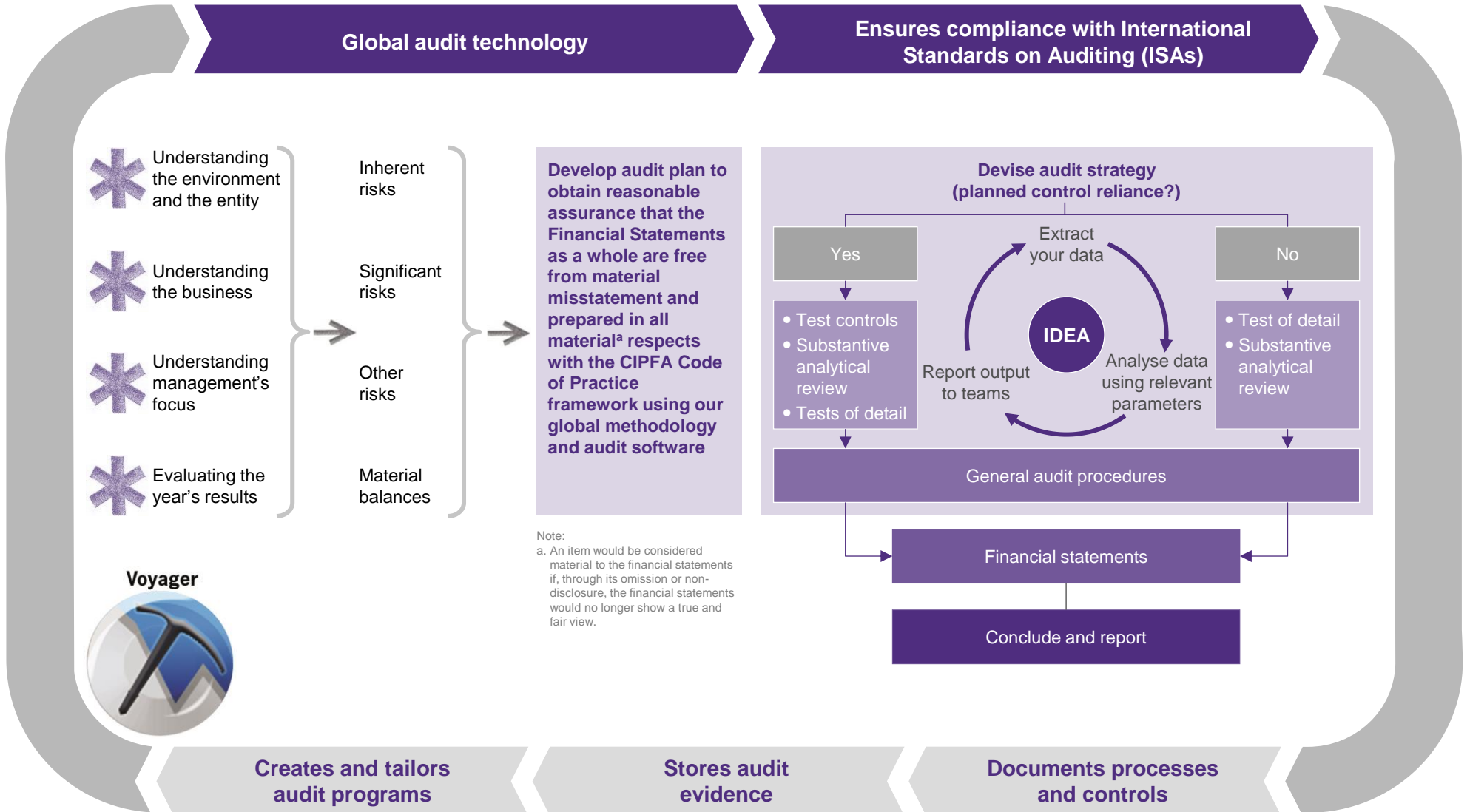
- We will discuss the impact of the legislative changes through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will review the arrangements you have in place for the production of the AGS.
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- We will review your performance against the 2014/15 budget, including consideration of performance against the savings plan.
- We will undertake a review of Financial Resilience as part of our VFM conclusion.

- We will carry out work on the WGA pack in accordance with requirements.

# Our audit approach



# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• your culture and ethical frameworks mean that all forms of fraud are seen as unacceptable</li> </ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of control environment and internal processes in place in relation the posting of journal entries</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>
New General Ledger (One Oracle) implemented during the year	There is a risk of incomplete transfer of data from the old system to the new system.	<p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of the general IT controls relating to the new general ledger and associated subsidiary systems</li> <li>• Review of the reconciliation exercise undertaken that checked all the data transferred was complete and accurate</li> <li>• Review of opening and closing balances to ensure overall completeness</li> <li>• Sample testing of individual items transferred from the previous general ledger onto the new general ledger and vice-versa, to review accuracy</li> </ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>• Identification of controls over operating expenses</li> <li>• Walkthrough of the operating expenses cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Testing the year end reconciliation of operating expenditure recorded in the general ledger to the subsidiary system</li> <li>• Unrecorded liabilities testing to assess whether transactions are recorded in the correct period</li> <li>• Substantive testing of operating expenditure payments</li> <li>• Substantive testing of year end payable balances</li> </ul>
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<ul style="list-style-type: none"> <li>• Identification of controls over employee remuneration</li> <li>• Walkthrough of employee remuneration cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Testing the year end reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems</li> <li>• Substantive testing of payroll payments, assessing whether payments are made in accordance with the individual's terms of employment and deductions are correctly calculated</li> <li>• Testing to confirm the completeness of payroll transactions</li> </ul>

# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
CCURV LLP	No	Analytical	The accounting period for CCURV LLP was the year ended 31 December 2014 and is therefore not co-terminus with your statement of accounts.	We will obtain the CCURV accounts to 31 December 2014 which are audited by Deloitte LLP. In addition, we will undertake a review of management accounts which you make to turn these into compatible group accounts with a 31 March 2015 year end.
Croydon Care Solutions Limited	No	Analytical	None	We will obtain the accounts to 31 March 2015 which are audited by PWC.

You have previously prepared Group Accounts as part of your financial statements. You are currently considering whether or not to do this in 2014/15. We will consider your quantitative and qualitative judgements and associated disclosures within the financial statements.



# Value for money

## Value for money

The Code requires us to issue a conclusion on whether you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- review of your medium term financial plan and longer term financial resilience, especially your ability to close the projected gap in budgets from 2016/17 to 2018/19 which is expected to be £78m.
- review of your 'Growth Zone' and other regeneration and redevelopment plans and the impact on the Boroughs infrastructure; including highways, housing and education places. Review of your plans to achieve this growth through a Revolving Investment Fund.
- review of your arrangements where changes to your responsibilities require different ways of working. For example, delivering the requirements of the Care Act 2014, implementing the Better Care Fund and dealing with the impact of housing shortages, homelessness and welfare reform.
- review of the implementation of the One Oracle programme, including the impact on the efficiency and effectiveness of financial reporting.
- follow up of issues raised in our 2013/14 Value for Money report, such as progress on reducing departmental overspends, identification of savings, capital slippage against capital plan and the sufficiency of capacity within the Finance department.

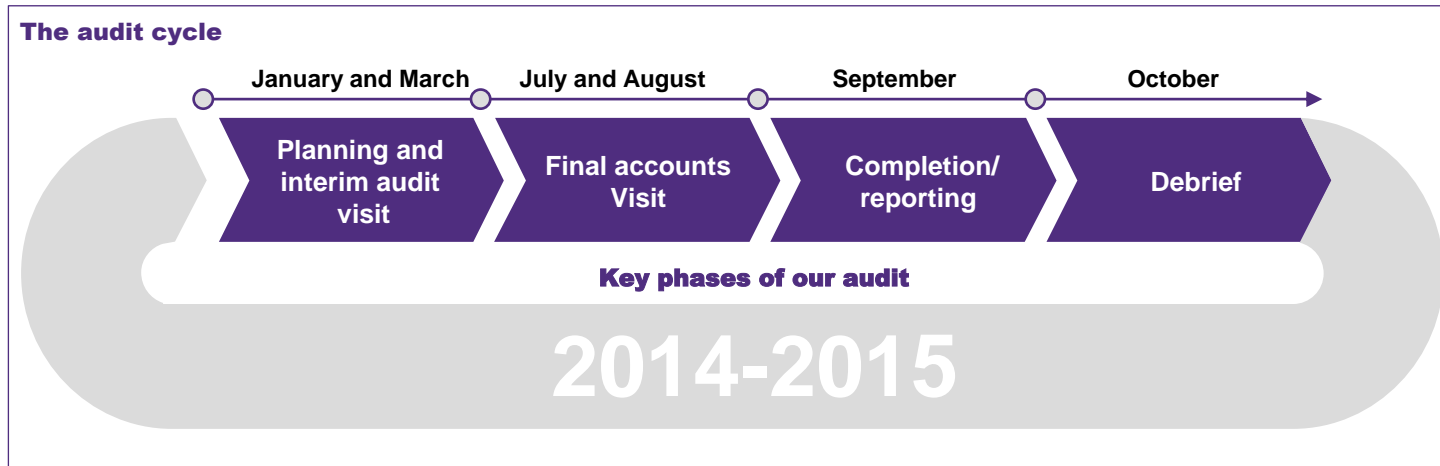
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on your key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, being employee remuneration and operating expenditure.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls</b>	<p>We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy.</p>	<p>Our work to date has not identified material weaknesses which are likely to adversely impact on your financial statements.</p>

# Key dates



<b>Date</b>	<b>Activity</b>
<b>January and March 2015</b>	Planning and interim site visit
<b>25 March 2015</b>	Presentation of audit plan to the General Purposes and Audit Committee
<b>July and August 2015</b>	Year end fieldwork
<b>9 September 2015</b>	Audit findings clearance meeting with Director of Finance & Assets
<b>16 September 2015</b>	Report audit findings to the General Purposes and Audit Committee
<b>By 30 September 2015</b>	Sign financial statements opinion and value for money conclusion

# Fees and independence

## Fees

	£
Council audit	230,480
Grant certification	34,340
<b>Total fees (excluding VAT)</b>	<b>264,820</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Council and your activities, have not changed significantly
- You will make available management and accounting staff to help us locate information and to provide explanations
- Additional work around the introduction of the One Oracle system has not been included in the Audit Commission scale fee above.

## Fees for other services

Service	Fees £
Financial Resilience Capacity Building Programme	10,000

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to you.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as your independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers your key risks when reaching our conclusions under the Code.

It is your responsibility to ensure that proper arrangements are in place for the conduct your business, and that public money is safeguarded and properly accounted for. We have considered how you are fulfilling these responsibilities.

	Audit plan	Audit findings
<b>Our communication plan</b>		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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