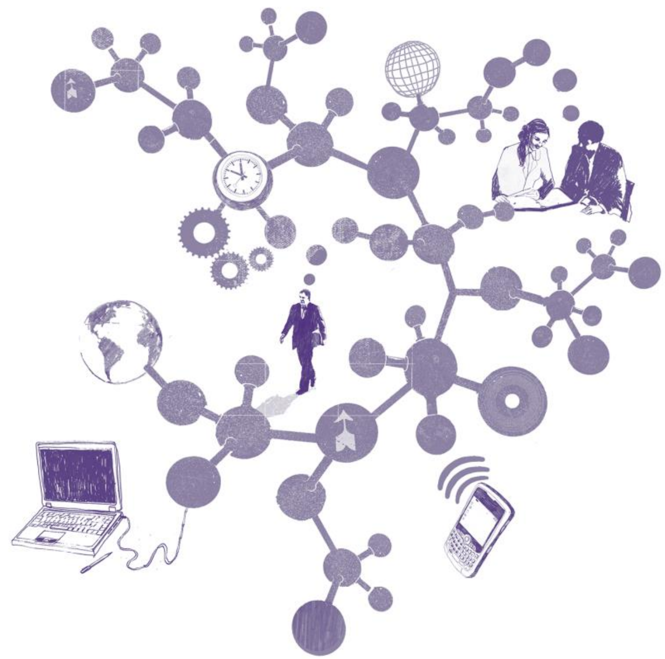
The Audit Findings for Croydon Council

Year ended 31 March 2015

September 2015



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September 2015

Dear Councillor Ryan

Audit Findings for Croydon Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in your case, the General Purposes and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Paul Grady
Engagement Lead

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of your financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, your financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

Introduction

We communicated our Audit Plan to you in April 2015. In the conduct of our audit we have made one change to our planned audit approach from that set out in the plan. We identified an additional risk relating to accounting for schools, and undertook work to mitigate this risk. Further details are contained on p12.

Our audit is substantially complete, subject to the satisfactory completion of our work in the following areas:

- receipt and review of information to support remaining sampled items in respect of operating expenses, revenues, employee remuneration and responses from schools;
- review of cash accounting following receipt of the bank reconciliation;
- final review of accounting and consistency checks in a small number of areas;
- final quality control and review of audit work completed;
- receipt and review of the final version of the financial statements;
- receipt and review of your documented judgement to support your ungrouping assessment;
- obtaining and reviewing the final management letter of representation;
- receipt and review of final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion;
- final senior management and quality reviews; and
- completion of Whole of Government Accounts audit.

We received draft financial statements and the majority of accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

The key messages arising from our audit of your financial statements are:

- working papers were generally provided on time and in accordance with the agreed protocol;
- there have been a number of delays is receiving responses for information from outside the core finance team, which has reduced the efficiency of the audit process;
- the overall level of errors in the financial statements has reduced from previous years;
- a number of control findings have been noted and recommendations raised, particularly in relation to long outstanding debtors and IT controls;
- a small number of presentation and disclosure issues have been identified during the audit which management has agreed to amend; and
- further progress has been made to de-clutter the accounts, with improvements to the structure and removal of immaterial notes.

Based on work completed to date, we have identified one adjusted misstatement relating to double counting of schools income and expenditure, which does not affect your reported financial position. We have not identified any other adjustments affecting your reported financial position. The draft financial statements for the year ended 31 March 2015 recorded net expenditure of £156,850k; the audited financial statements show net expenditure of the same amount.

Further details are set out in section two of this report.

Value for Money conclusion
We are pleased to report that, based on our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources, we propose to issue an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

Whole of Government Accounts (WGA)
We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

Roles and responsibilities
Management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

Findings
We draw your attention to control issues identified particularly in relation to aged debtors and IT controls;

Further details are provided within section two of this report.

The way forward
Matters arising from the financial statements audit and review of your arrangements for securing economy, efficiency and effectiveness in your use of resources have been discussed with the Assistant Chief Executive (Corporate Resources and Section 151 Officer).

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Assistant Chief Executive (Corporate Resources and Section 151 Officer) and the finance team.

We are aware that you have an ambition to prepare and publish audited financial statements earlier than the current 30 September statutory deadline. From 2017/18, the statutory deadlines themselves will be brought forward and you will be required to produce draft accounts by 31 May, and secure an audit opinion by 31 July. Achieving these earlier deadlines, particularly within the more complex environment within which you now operate, will require an element of redesign of some of your closedown processes, arrangements and internal business processes. The audit process is also an important part of this. We have worked with many large clients to successfully implement faster close and will work with you during the coming year to support you in achieving the earlier deadlines, two years before the statutory deadlines are brought forward .

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the General Purposes and Audit Committee in March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We communicated our Audit Plan to you in April 2015. In the conduct of our audit we have made one change to our planned audit approach from that set out in the plan. We identified an additional risk relating to accounting for schools, and undertook work to mitigate this risk. Further details are contained on p12.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**The revenue cycle includes fraudulent transactions** Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	• Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: - there is little incentive to manipulate revenue recognition - opportunities to manipulate revenue recognition are very limited - your culture and ethical frameworks mean that all forms of fraud are seen as unacceptable.	Subject to the satisfactory resolution of outstanding matters as set out on page 5, our audit work has not identified any significant issues in relation to the risk identified Control findings in relation to long outstanding debtors were identified in the course of the audit. These are set out on p18.
2.	**Management override of controls** Under ISA 240 the presumption that the risk of management override of controls is present in all entities.	We have undertaken the following work in relation to this risk: • Review of, and consideration of outcomes from accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions	Subject to the satisfactory resolution of outstanding matters as set out on page 5, our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**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.	We have undertaken the following work in relation to this risk: • Review of the general IT controls relating to the new general ledger and associated subsidiary systems • Review of the reconciliation exercise undertaken that checked all the data transferred was complete and accurate • Review of opening and closing balances to ensure overall completeness • Sample testing of individual items transferred from the previous general ledger onto the new general ledger and vice-versa, to review accuracy	Our audit work has not identified any significant issues in relation to the risk identified

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors related to core activities (e.g. supplies) understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • Identification of controls over operating expenses • Walkthrough of the operating expenses cycle • Testing the year end reconciliation of operating expenditure recorded in the general ledger to the subsidiary system • Unrecorded liabilities testing to assess whether transactions are recorded in the correct period • Substantive testing of operating expenditure payments • Substantive testing of year end payable balances	Our audit work identified that £32.9m of schools expenditure and income had been 'double counted' within the financial statements. Further details are set out on p19. Subject to the satisfactory resolution of outstanding matters as set out on page 5, our audit work has not identified any other significant issues in relation to the risk identified
Employee remuneration	Employee remuneration and benefits obligation and expenses understated	We have undertaken the following work in relation to this risk: • Identification of controls and walkthrough of employee remuneration cycle • Testing of the year end reconciliation of payroll expenditure recorded in the general ledger to subsidiary system • Substantive testing of payroll payments, assessing whether payments are made in accordance with the individual's terms of employment and deductions are correctly calculated • Testing to confirm the completeness of payroll transactions	Subject to the satisfactory resolution of outstanding matters as set out on page 5, our audit work has not identified any significant issues in relation to the risk identified

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan.

	Issue	Commentary
1.	**Accounting for schools** • Following the adoption of the new International Financial Reporting Standards on group accounting, the CIPFA/LASAAC Code of Practice 2014/15 includes new accounting requirements for schools. Due to the varied and complex arrangements for the use of school buildings, the accounting treatment of schools requires significant judgement based on the circumstances of individual schools. It involves the consideration of the school as an entity and any rights held by the local authority. Through this process, the income, expenditure, assets and liabilities are consolidated into the local authority single entity accounts, with the key consideration being over the recognition of the non current assets.	• You have considered the requirements of the 2014/15 Code of Practice and recognised the land and buildings for community on the balance sheet. You have performed a case by case assessment of foundation, voluntary aided and voluntary controlled schools to determine legal ownership and control over the schools' land and buildings. This has resulted in the recognition of foundation schools on the balance sheet. Free schools and academies are excluded from the balance sheet. • We have reviewed the judgements made and the individual assessment, and we are satisfied that the accounting for schools is in accordance with accounting standards and the requirements of the CIPFA/LASAAC Code of Practice. • Findings have been identified in relation to the double count of schools income and expenditure upon the consolidation process. These are set out on p19.

Group audit scope and risk assessment

You have not prepared group accounts as part of your financial statements in 2014/15, following your analysis of the group position with regard to materiality. We are still required to consider and review the group relationship and confirm that it is appropriate to not prepare group accounts on these grounds. ISA (UK&I) 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	Work completed	Assurance gained & issues raised
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 obtained the CCURV accounts to 31 December 2014 which are audited by Deloitte LLP. • We undertook a review of management accounts used to turn these into compatible group accounting entries for 31 March 2015 year end.	Subject to the satisfactory resolution of outstanding matters as set out on page 5, our audit work has not identified any issues in respect of the risk identified or the consolidation process
Croydon Care Solutions Limited	No	Analytical	None	• Obtain the accounts to 31 March 2015 which are audited by PWC. • Review of the consolidation process.	Subject to the satisfactory resolution of outstanding matters as set out on page 5, our audit work has not identified any issues.

Findings in relation to income, expenditure, assets and liabilities of schools as entities being consolidated into the single entity accounts are included on p12. No other issues were identified from school consolidation.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Your primary sources of income are from government and non government grants, contributions, fees and charges. • This is recognised appropriately when the transfer of the risks and reward of ownership have transferred and when it is probable that the economic benefits or service potential have transferred.	• Your accounting policy is appropriate and consistent with IAS 18 Revenue and the CIPFA Code of Practice on Local Authority Accounting • The extent of judgement involved in revenue recognition is minimal as information is generally readily available • The accounting policies as disclosed are adequate.	**Green**
Estimates and judgements	• Key estimates and judgements include: - useful life of capital assets - pension fund valuations and settlements - revaluations of property - impairments - provisions, including provision for business rate appeals - accruals of income and expenditure - accounting treatment of school assets	• Your accounting policies are appropriate and consistent with accounting standards and the CIPFA Code of Practice on Local Authority Accounting • You have exercised judgement in the recognition and valuation of estimates. These are generally based on the best available information (e.g. contracts, previous invoices, schedule of activities etc) or the work of an expert (e.g. actuary, valuer etc). We have reviewed the judgements made and confirmed they have been reasonably applied. • Individual consideration over property, plant and equipment and business rates are set out on p15 and p16.	**Green**
Going concern	You have a reasonable expectation that your services will continue for the foreseeable future. For this reason, you continue to adopt the going concern basis in preparing the financial statements.	We have reviewed your assessment and are satisfied that the going concern basis is appropriate for the 2014/15 financial statements.	**Green**

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments	Assessment

Estimates and judgements - property plant and equipment	The accounts sets out your programme of revaluations, whereby you carry out a 5 year rolling revaluation programme. In addition to this, you have revalued a profile of significant assets by value and by provision. Your internal valuer has then used this valuation and indexation information to review the valuation of other individual assets and uplift as appropriate.	• This approach is similar to that undertaken by many other authorities, and we are satisfied that you have satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from its fair value at 31 March 2015.
		• As we reported to you within our Audit Findings Report in 2013/14, we do not consider your current approach to performing asset revaluations to be in line with the CIPFA Code.
		• The CIPFA Code, paragraph 4.1.2.35, which is based upon IAS 16 "Property, Plant and Equipment", requires councils to value all items within a class of property, plant and equipment simultaneously. This paragraph of the Code does permit a class of assets to be re-valued on a rolling basis provided that:
		  • the revaluation of the class of assets is completed within a "short period"; and
		  • the revaluations are kept up to date.
		• In our view, we would normally expect this "short period" to be within a single financial year. This is because the purpose of simultaneous valuations is to "avoid reporting a mixture of costs and values as at different dates". This purpose is not met where the revaluation programme for a class of assets straddles more than one financial year..
		• We note that your internal valuer has used indices to carry out the revaluation of assets that were not subject to the formal external valuation process. This has enabled you to demonstrate that the carrying value is materially fairly stated. However, this is a departure from the CIPFA Code of Practice, and you should ensure that where you identify a material difference in valuation that an appropriate evidence appraisal is undertaken by professionally qualified valuers.
		• Our review also identified eleven assets that are outside your 5 year valuation cycle, having last been revalued before 1 April 2010. The carrying value of these assets is £6,683k. We are satisfied there is no material misstatement arising from this departure from your accounting policy. However, these assets should have been subject to revaluation in 2014/15. We have raised a recommendation to improve arrangements in this area.
			● **Amber**

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Estimates and judgements - business rates provision	You have provided for appeals made by businesses to the Valuation Office Agency over the local rateable value and the impact of the business rates collectable. This is based on anticipated success rates and properties under appeal at the year end.	• Your overall approach to business rate appeals provisions is sound and provides a robust analysis of the provision required. • However, we noted that the data used for calculation could not be substantiated at the time of the audit. A revised calculation using data at 31 July resulted in a recalculated provision that is £1.6m greater than that included within the collection fund. As this is an estimate, you have elected not to amend your accounts for this difference, and we are satisfied it does not represent a material error.	● **Amber**
Other accounting policies	We have reviewed your accounting policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	● **Green**

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the General Purposes and Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested.
4.	**Disclosures**	• Our review found no non-trivial omissions in the financial statements
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Confirmation requests from third parties**	• We obtained direct confirmations from the PWLB and other commercial lenders for loans and requested from management permission to send confirmation requests to various institutions for bank and investment balances. This permission was granted and the requests were sent. All responses required were returned with no issues identified.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 11 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	● Amber	**Long outstanding debt** • Our testing identified a large volume of long outstanding debt within your accounts receivable balance. While we are satisfied that the risk of non-payment of these assets has been appropriately provided for, there is the need to consider whether balances should be written off. There is a risk that long outstanding debt is not being appropriately monitored for recoverability, and focus should be on those items that are realistically collectable.	• Review the processes used to collect and monitor long outstanding debt and consider writing off where collectability is considered sufficiently low or the costs of collection exceed the recoverable amount.
2.	● Amber	**IT findings** 1. The use of database default passwords within Oracle presents a security risk as default accounts can be misused to perform unauthorised table edits. Although a user would have to be reasonably knowledgeable to exploit this weakness, a lack of knowledge should not be relied upon to protect sensitive data. 2. The use of the 'process tab' in Oracle is a known security risk. There are 22 Croydon responsibilities with this vulnerability. There is the risk that users have unsegregated access to processes that administrators are unaware of. 3. Some users within Oracle can assign themselves or others increased functionality. Our review has noted there have been 399 instances where 26 users have allocated responsibilities to themselves. This presents the increased risk of fraud or error if users have access privileges beyond those required to perform their role.	1. Default passwords should be changed to avoid the risk of system compromise. Management should ensure that for any future upgrades or developments, a thorough review is undertaken and default passwords changed. 2. A review should be undertaken to identify all responsibilities that could be exploited using the process tab functionality. 3. Management should review the policy on allowing users to self-assign privileges. Where administrative staff require additional functionality, they should be required to apply for this through formal change management procedures. Monitoring controls should be implemented to identify instances of staff assigning themselves additional responsibilities.

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which management has agreed to correct in the accounts. There are no unadjusted non-trivial misstatements to report.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	**Schools double count** Our audit of grant income identified a number of items where schools income and expenditure had been 'double counted'. This arises from the process to incorporate schools balances within the financial statements. A significant adjustment had been made to the draft financial statements to substantially eliminate the double count, but additional items were identified during the audit process. There is no impact on the reported financial position, as both income and expenditure are reduced by the same amount. A recommendation has been raised to review this process in future years: *Comprehensive Income and Expenditure Statement* Dr Education and children's services (gross income) Cr Education and children's services (gross expenditure)	 32,906 (32,906)		 0
	Overall impact	**£0**	**£0**	**£0**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to correct in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	Various	CIES	Your presentation of the lines within Net Cost of Services was not fully in accordance with CIPFA's Service Reporting Code of Practice, requiring disaggregation and re-analysis of a number of lines. This does not affect the overall income or expenditure.
2	Disclosure	Various	Note 32 Grants	The grants note did not identify Schools grant funding correctly; this has been disaggregated further into Pupil Premium Grant, Sixth Form Grant and Universal Free School Meals.
6	Disclosure	Various	Various	The audit identified a number of typographical and disclosure adjustments which management has agreed to amend.

Section 3: Value for Money

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in your use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

You have proper arrangements in place for securing financial resilience – you have robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables you to continue to operate for the foreseeable future.

You have proper arrangements for challenging how you secure economy, efficiency and effectiveness – you are prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered your arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work confirmed that that you will continue to face significant financial challenges over the coming years. Although there are savings plans already in place, additional savings of over £78m need to be identified by 2018/19. Management recognises the scale of these challenges and is in the process of taking steps through the Croydon Challenge to transform the council and focus objectives on outcomes. The challenge you face, however, is significant and will require difficult decisions to be made.

Challenging economy, efficiency and effectiveness

We have considered your arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work confirmed that you have strong plans in place for significant growth within the borough and are developing innovative mechanisms to fund and deliver projects. You are working well with partners to deliver health and social care requirements. However, there remain risks around growth of homelessness and access to affordable housing.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2015.

Assessment Summary

We set out below our detailed findings against six risk areas which have been used to assess your performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	• Your final 2014/15 budget position was an overspend of £0.920m which is being met through the use of general fund balances, reducing them overall from £11.597m to £10.677m. This represents a deficit of just 0.5% of your overall net budget requirement. The position does, however, reflect a significant overspend in demand led services which was substantially offset by corporate underspends. • Despite the challenging financial environment, your 2015/16 council tax demand is the same as last year, enabling you to demonstrate to the people of the borough your effort to deliver services efficiently. You continue to maintain good collection rates over both council tax and business rates. • On the capital side, you incurred a large £95m slippage on a budget of £195m. This suggests your capital budget requires more realistic programming to ensure it more appropriately reflects what is likely to be delivered and that future slippage is kept to a minimum.	**Amber**
Strategic financial planning	• In line with most other authorities, your medium term financial planning has continued to identify significant budget shortfalls for the coming years. Your 2015 plan forecasts the period 2016/17 to 2018/19 and recognises the need to make an additional £78m of savings over the 3 years. The budget gap is a result of increased demand, inflationary pressures, the continued loss of grant income from central government and risks around local taxation for council tax support and business rate retention. • In February 2015, you set a balanced budget for 2015/16, recognising the need to make over £25m of in year savings. Your savings assumptions are based around a dual approach of council wide transformational savings through the Croydon Challenge programme combined with scrutiny of budgets and spending at departmental level. • Following the budget setting process, there have been a number of changes to government funding and demand led pressures in the People department. Your monitoring at the first quarter of 2015/16 indicates that a year end contribution of £3.163m from General Fund balances would be needed if corrective action is not taken over the remainder of the year. Departments are currently working to identify this, but it does continue to present a risk over the achievability of your longer term savings plans. • Looking further ahead, you continue to make progress towards your 2016/17 budget, with an aim to set a balanced budget in February 2016. Your total budget gap is £29.4m, and taking into account £11.6m of savings already identified, leaves you £17.8m of savings still to find for next year.	**Amber**

Assessment Summary (continued)

Theme	Summary findings	RAG rating
Financial governance	• There is a high level of engagement from officers and Members and a clear understanding of the financial environment you are in and of the financial implications of current and alternative policies. • You have good monitoring and review processes. You understand your responsibilities and subject your financial performance to the appropriate level of scrutiny.	**Green**
Financial control	• You have robust financial monitoring systems and internal controls in place in order to deliver revenue budget and savings. Risk management continues to be well embedded across the Council and financial control is generally good both within departments and within the central finance function. • In 2014/15, there was a significant overspend against revenue budgets, particularly in the People directorate. This was flagged relatively early in the financial year, enabling you to take mitigating action for the 2015/16 budget, even if you could not fully remedy the issues in year. However, your Q1 2015/16 monitoring continues to forecast significant overspends, suggesting the budget planning assumptions were not sufficient to deal with the ongoing trend of demand led cost pressures and under-delivery of savings schemes. • Your general fund and earmarked reserves position is now lower than target, and comparatively low compared to other authorities. There is a risk that under-delivery of savings plans could have a significant impact on the general fund balance and limits your ability to mitigate any shortfall or slippage by using reserves. • As with previous years, there was significant slippage of £95m against the £195m capital programme in 2014/15. There is the continued need for more realistic programming to better manage resources and reduce additional costs. To this end, you have carried out a review of the 2015/16 capital programme, taking out over £75m of planned spend. Capital underspends have also assisted revenue budgets through lower capital charges incurred. Although this may assist with short term pressures, you are at risk of not generating the planned benefits of your capital programme, for example by not realising planned efficiencies or by failing to implement enablement of your growth objectives such as additional school places, infrastructure and meeting housing need. • You have continued your restructuring of the finance team. You have taken on board lessons learned from last year where there were significant delays to the accounts and audit processes as a result of loss of corporate memory arising from personnel changes. While we have continued to experience minor delays, the overall level of progress has been good, with a well embedded and engaged finance team in place. Your new One Oracle system and associated control environment better enables you to report and monitor financial information efficiently.	**Amber**
Prioritising resources	• You continue to require significant additional savings to be found from 2016/17 onwards, and have put in place plans to radically overhaul the budget process to meet the £78m shortfall. • Your budget setting process and the Croydon Challenge are based around three key strategic objectives of Independence, Growth and Liveability. The programme takes an outcomes based approach, whereby you are fundamentally considering whether services meet your strategic objectives, and how and whether at all they should be delivered. • Growth will be a key objective, and you have clearly focussed strategic plans in place to enable investment and transform communities and the centre of Croydon. One part of this is the 'Growth Zone', which has the support of central government and aims to deliver a multi-billion pound investment into the centre of the borough with a focus on job creation and homebuilding.	**Green**

Assessment Summary (continued)

Theme	Summary findings	RAG rating
Prioritising resources (continued)	• Your growth plans aim to help deal with housing shortages, and plan the construction of 9,500 homes over the next 5 years. You are managing existing risks around housing supply and homelessness through works to expand temporary accommodation, reducing under-occupancy and IT efficiencies in processing and managing information. • You continue to make good progress through partnership working with Croydon CCG and local health providers in relation to the Better Care Fund and the Care Act 2014. • The information used for decision making is reliable and timely, and enables you to make sound management decisions.	**Green**
Improving efficiency & productivity	• You understand costs and use suitable benchmarking and performance indicators to monitor progress and report this appropriately according to the effectiveness of services. • Despite teething issues, the implementation of the One Oracle system has better enabled you to understand financial information and will help with a more efficient closedown and audit process. As with any system implementation, there are a number of areas requiring attention. Our IT review has raised a number of internal control findings which we have shared with you.	**Green**

Areas of Focus

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
Financial planning and long term financial resilience (Key indicators of performance - 2014/15 Performance against budget Strategic financial planning – focus on the MTFP, adequacy of planning assumptions, scope of the MTFP)	In 2014/15, you have delivered an overspend of £0.920m against your general fund balance. The position was driven by large departmental overspends offset by corporate underspends. The People department overspent by £7.8m, primarily the result of increased children's placement costs (£3.6m) and demand led increases in learning disabilities, older people services and physical disability services (£4.7m). Pressures in the Place department totalled £2.4m, particularly surrounding temporary accommodation additional costs of £1.6m. These overspends were substantially offset by £5.6m of additional grants against corporate budgets such as business rates grants, £1.9m reduction in interest payable due to the lower capital spend and £1m of contingency not used. The level of overspend reflects deficiencies in the 2014/15 budget setting process, and you have sought to address this through increased growth assumptions in the 2015/16 budget totalling around £9m, with the majority of this focussed on the People and Place departments. In common with most councils, you continue to face significant savings requirements in future years. Your Medium Term Financial Plan indicates that you will need to find £78m in savings by 2018/19, equivalent to 21% of your 2014/15 budget. You plan to achieve council wide transformational savings through the Croydon Challenge. This is an outcomes focussed programme based on three core strategic objectives of independence, growth, and liveability. Core projects include Digital by Design, asset management, schools mutual, improving outcomes for the over 65s and contract management transformation, aiming to deliver £14m of savings towards the 2015/16 budget. 'Digital by Design' is an initiative to deploy digital solutions to staff and customers. The aim is to provide easier access to information, support self-help and independence, and support a mobile workforce. While there are significant costs involved, the potential for savings is estimated at £5.57m p/a from Q2 2016/17 onwards. There have been delays in implementing the project, to ensure it is truly fit for purpose, and this has resulted in savings of £2.3m being rendered unachievable in 2015/16. It is hoped that this will be made up for in future years. You have set a balanced budget for 2015/16 which includes the need to make £25.6m of savings over and above the 2014/15 budget. Budgeting assumptions reflect the lessons learned from demand led growth in 2014/15. However, at Month 3 2015/16, you are forecasting a full year overspend of £3.163m. There continues to be large demand led forecast overspends against core services, particularly in adult placements (£6.6m) and temporary accommodation (£2.6m). It is clear that pressures on services continue over and above your planning assumptions, and the growth factored into the budget was insufficient. You are putting in place plans to mitigate the risks, and recognise the need to transform these services if they are to meet their financial targets. Following the use of the CCURV reserve to reverse the BWH arrangements, earmarked reserve balances have fallen to £39.3m (from £68.5m in 2013/14). Due to the overspend on budgets, the general fund balance has fallen from £11.6m to £10.7m. Given that a significant proportion of these reserves are allocated to specific expenditure, the overall level of reserves remains low, and reduces your resilience to unexpected expenditure increases or under-delivery of savings targets. While this does present a risk, we are satisfied that it does not highlight any issues with regard to going concern. Historically, you have delivered the savings required to maintain your reserve position each year and you have set a balanced budget for 2015/16. You do not have issues with liquidity or cash management and we are not aware of any significant changes that would impact your continuation as a going concern. Overall, your MTFP is clear about the scale of the financial challenge you are facing and does not underestimate the savings required. As with many other councils, you must deliver these savings in order to maintain your financial health.	**Amber**

Areas of Focus (continued)

Residual risk identified	Summary findings	RAG rating
Infrastructure planning and the 'Growth Zone' (Prioritising resources – leadership and challenge in prioritising resources)	A core component of your strategic objectives is growth. The 'Growth Zone' is one part of an ambitious plan to reshape Croydon through substantial investment, to help generate more job opportunities, affordable homes, better infrastructure and facilities. You have put in place 'The Croydon Promise: Growth for All' which sets out your vision for the future of Croydon. Key projects include the Westfield shopping complex, house building, transport link improvements and attracting investment and businesses to the area. The plan is based around achievable objectives for each locality, and is targeted to meet the needs of local residents. The 'Growth Zone' has the support of central government and plans would mean locally generated taxes on development being retained, allowing you to borrow against the income. This would be combined with other funding mechanisms such as a stamp duty pilot and the retention of all business rates uplift. While the details of the scheme are yet to be finalised, the government has conditionally agreed to provide £7m of funding, and you have identified £8m from other sources. This would enable you to pay for the financing costs on a £200m loan that would be invested in improving the infrastructure in and around Croydon. You will play a critical role co-ordinating growth in the borough. The biggest challenge you face is to deliver this level of growth, while at the same time making significant savings. You plan to use a Revolving Investment Fund to draw in funding of assets over a 20-30 year timeframe to enable funding a portfolio of projects. The plan is for this model to fund infrastructure and investment required for development and in turn generate new homes, jobs and business income. Two of the first investments are the redevelopment of Taberner House and BOXPARK at East Croydon.	**Green**
Changing responsibilities and different ways of working (Prioritising resources – leadership and challenge in prioritising resources)	You have put in place arrangements to respond to the need for different ways of working. You are working closely with Croydon CCG and local healthcare providers to deliver the requirements of the Better Care Fund, managed through the joint Health and Wellbeing Board, and a Better Care Fund plan was in place for 1 April 2014. In relation to the Care Act 2014, you have successfully implemented a number of practice, process and other changes to ensure compliance with the reforms coming into force from 1 April 2015. This is focussed on preventing, delaying or reducing people's need for care and support, underpinned by promoting wellbeing and helping people achieve outcomes that matter to them. One of the principle risks in relation to the Care Act has been the funding reforms, such as the implications of the cap on the cost of care. In July 2015, the government confirmed that it would delay the funding reforms, due to be implemented in April 2016, to April 2020. This reduces the immediate pressures arising from the reforms, although you should continue to maintain oversight of the potential impact. The level of homelessness in the borough continues to increase. The number of households accepted as homeless has doubled since 2009/10 and the number living in temporary accommodation has more than doubled. The trend of increasing homelessness and demand on temporary accommodation is likely to continue to increase. London wide issues around access to affordable housing continue to persist. You continue to manage these issues as a significant risk within the risk register. Your growth plans aim to help deal with housing shortages, and plan the construction of 9,500 homes over the next 5 years. You are managing the risks around housing supply and homelessness through works to expand temporary accommodation, reducing under-occupancy and enhancing IT efficiencies in processing and managing information.	**Green**

Areas of Focus (continued)

Residual risk identified	Summary findings	RAG rating
One Oracle implementation (Improving efficiency and productivity – data quality)	The One Oracle system was brought online during 2014/15. This involved the transfer of significant amounts of data from the legacy Oracle and other systems to the new structure. The project, carried out in conjunction with five other London borough councils, has enabled you to bring together financial information and has improved the efficiency of your financial reporting process, enabling more robust monitoring of key financial information. There have been a number of teething issues with the system, and we have had some difficulties reviewing access controls. In our experience, it is not uncommon for such teething issues to arise with large scale system transfers. We have identified a number of internal control findings in relation to the new system, and these are set out in Section 2 of this report. Notwithstanding the above, the implementation of the One Oracle system has better enabled you to understand financial information and will help with a more efficient closedown and audit process.	**Amber**
Follow up of 2013/14 issues (Key indicators of performance - 2014/15 Workforce, Performance against budgets Strategic financial planning – focus on the MTFP, responsiveness of the MTFP Financial control – budget setting and monitoring – revenue and capital, finance department resourcing)	Our 2013/14 Value for Money report identified a number of recommendations that we have followed up this year; • We recommended review of your quarter 1 forecast overspend. You took substantial corrective action to reduce the overspend from £2.9m to £0.9m, and considered this in the 2015/16 budget. However, at Q1 2015/16, you continue to forecast a large year end overspend, which will again require corrective action. A similar recommendation has therefore been raised in Appendix A to consider the action needed to correct the £3.1m forecast overspend in 2015/16. • We recommended that you identify the detail of savings required in the 2015/16 budget. While there have been significant savings made, some projects have under-delivered, and the budget gap for 2016/17 is £29.5m, with over £17.8m of savings still to be identified. It is critical that you take early action to identify these savings to avoid increased pressure later in the year. We have therefore raised a similar recommendation in Appendix A. • We recommended that you review capital projects to ensure they were realistic and achievable. Your 2015/16 budget reflected a total capital plan of over £220m (including 2014/15 slippage). Re-profiling during the year has reduced this by over £75m to a more achievable £155m. While full year data is not available, and spend to the end of July 2015 is only £26m, we do expect this to represent a more manageable capital programme. You are using relevant modules within One Oracle to support real time monitoring of capital expenditure and maintain appropriate scrutiny. There are risks over not delivering your full capital programme, such as failing to achieve savings through efficiencies and failing to achieve enablement of your growth objectives through delivering additional school places, infrastructure and meeting housing need. • Our 2013/14 audit encountered issues with the timeliness and quality of working papers and the capacity of staff across the organisation to comprehensively deal with audit queries. While some issues have remained around response times from outside the core finance team, you have put in place a well embedded and engaged finance team, with good levels of understanding. You have engaged with the audit process throughout the year, including inviting our attendance at closedown training. The improvements you have put in place have contributed to a more efficient closedown and audit process this year.	**Amber**

Section 4: Fees, non-audit services and independence

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	230,480	230,480
Additional fee for new General ledger	TBC	TBC
Grant certification on behalf of Audit Commission	34,340	TBC
Total audit fees	**TBC**	**TBC**

As noted in our audit plan, additional one-off work around the introduction of the One Oracle system is not included in the standard audit fee. We will agree any additional fees required with management upon completion of our work.

We will confirm the fee for grant certification on behalf of the Audit Commission upon completion of our work.

All fees are subject to final determination from Public Sector Audit Appointments Limited (PSAA).

Fees for other services

Service	Fees £
Audit related services (grants certification outside Audit Commission regime), including; Pooling of housing capital receipts return certification Teachers Pensions return certification GLA Compliance audits	12,900 (expected)
Non audit related services 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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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).

We have been appointed as the Council's 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 the Council's key risks when reaching our conclusions under the Code.

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

Our communication plan	Audit Plan	Audit Findings
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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	Your 2015/16 budget revenue monitoring at quarter 1 identified large, predominantly demand led, departmental overspends. Offsetting underspends, income and contingency reduces the predicted year-end shortfall to £3.6m. Whilst departments are already identifying corrective actions and putting them into place to reduce this level of overspend, you must provide effective challenge so that this corrective action is taken as early as possible. The causes of these overspends must be clearly identified and addressed and incorporated into your MTFP assumptions.	High	The recommendations in the Autumn Financial Statement Report to Cabinet will help to ensure effective management, governance and delivery of the Council's medium term financial strategy and ensure a sound financial delivery of the 2015/16 in-year budget. The causes of the over-spends have been clearly identified, and a programme of action has been identified to achieve a balanced budget position for 2015/16 which is contained within the Autumn Financial Statement.	Section 151 Officer Ongoing throughout 2015-16
2.	You should continue working towards the transformation of services through the outcomes based approach of the Croydon Challenge and other savings schemes. This will enable you to close the significant budget gap in 2016/17 onwards. Savings should be identified by February 2016, as unidentified budget shortfall at 1 April 2016 would clearly significantly increase the risk by back loading any savings plans to the end of the year and accordingly increase the risk of you not meeting a balanced budgeted position at the year-end.	High	The Council recognises that it has to transform services to retain expenditure within its resources available. This is being managed through a series of projects within the Croydon Challenge Programme, along with an ongoing review of service expenditure, to ensure a balanced budget is set. Alongside these steps, the Council is also lobbying Ministers under our "Fairer Funding" campaign for increased resources.	Executive Leadership Team, led by the Section 151 Officer Ongoing, with 2016-17 budget set by February 2016
3.	Review the schools accounting and consolidation process to ensure schools income and expenditure is not 'double counted' within the financial statements.	Medium	A review of all schools' payment and grants will take place ahead of year-end, to ensure all such double counts are correctly identified, and future accounts are correctly stated.	Ian Geary, Accountancy Manager & Maria Organ, Finance Business Partner (People) February 2016

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4.	Review the processes used to collect and monitor long outstanding debt and consider writing off where collectability is considered sufficiently low or the costs of collection exceed the recoverable amount.	Medium	Management agree the monitoring process needs to be reviewed for aged debt, in conjunction with the write off policy. Review to be completed by the end of this calendar year.	Catherine Black, Benefits & Corporate Debt Manager December 2015
5.	Review the process to identify assets for valuation to ensure all assets are revalued within the 5 year cycle.	Medium	This recommendation relates to 11 assets out of over 400 that had not been valued within 5 years. The largest asset within this 11 was acquired in March 2013 and therefore not yet due a revaluation. However, the processes for ensuring all assets are valued within the 5 year cycle will be reviewed to ensure completeness.	Steve Wingrave, Head of Estates and Asset Management December 2016

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
6.	IT recommendations; 1. Default passwords should be changed to avoid the risk of system compromise. Management should ensure that for any future upgrades or developments, a thorough review is undertaken and default passwords changed. 2. A review should be undertaken to identify all responsibilities that could be exploited using the process tab functionality. 3. Management should review the policy on allowing users to self-assign privileges. Where administrative staff require additional functionality, they should be required to apply for this through formal change management procedures. Monitoring controls should be implemented to identify instances of staff assigning themselves additional responsibilities.	Medium	1. The Partnership System Integrator has indicated that there is a significant overhead for the Councils to test any changes to database passwords. The risk of not changing the passwords will be considered against the business impact. If changes are deemed necessary then this will be built into the joint work plan for the Council's Shared Application Support team and Capgemini. 2. The Councils will review the use of the Process Tab and take the necessary changes. 3. This practice is unacceptable and is robust processes around user management are being implemented by the Shared Application Support team. Regular reports will be run to show where this practice continues and will be stopped. If officers continue to carry out this practice after the appropriate guidance and warnings have been issued then management action will be instigated.	Victoria Richardson, Head of HR and Finance Service Centre December 2015

Appendix B: Audit opinion

Subject to satisfactory resolution of outstanding queries, we anticipate we will provide you with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF CROYDON COUNCIL

We have audited the financial statements of the London Borough of Croydon Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account – Comprehensive Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of the London Borough of Croydon Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Chief Executive, Resources and Section 151 Officer and auditor

As explained more fully in the Statement of the Responsibilities of the Director of the Assistant Chief Executive, Resources and Section 151 Officer, the Assistant Chief Executive, Resources and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Chief Executive, Resources and Section 151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Review of 2014/15 by the Chief Financial Officer to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:
give a true and fair view of the financial position of the London Borough of Croydon Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters
In our opinion, the information given in the Financial Review of 2014/15 by the Chief Financial Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception
We are required to report to you if:
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources
Respective responsibilities of the Authority and the auditor
The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

securing financial resilience; and

challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, the London Borough of Croydon Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

[Certificate

We certify that we have completed the audit of the financial statements of the London Borough of Croydon Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

OR

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the London Borough of Croydon Council included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2015. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

OR

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.**]**

Paul Grady
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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September 2015

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