

The Annual Audit Letter for Croydon Council

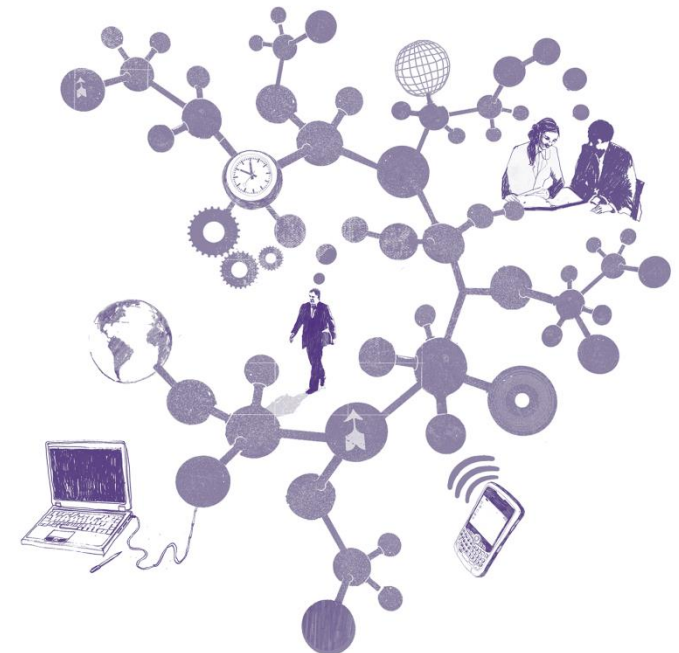
Year ended 31 March 2015

October 2015

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Croydon Council for the year ended 31 March 2015.

The Letter is intended to communicate key messages to you and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 23 September 2015 to the General Purposes and Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none">• the overall level of errors in the financial statements reduced from previous years;• working papers were generally provided on time and in accordance with the agreed protocol;• there were a number of delays in receiving responses for information from outside the core finance team, which reduced the efficiency of the audit process;• a number of control findings were noted and recommendations raised, particularly in relation to long outstanding debtors and IT controls;• a small number of presentation and disclosure issues were identified during the audit which management agreed to amend; and• further progress has been made to de-clutter the accounts, with improvements to the structure and removal of immaterial notes. <p>We issued an unqualified opinion on your 2014/15 financial statements on 25 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of your financial position and of the income and expenditure recorded.</p>
Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 25 September 2015.</p> <p>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 put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2015.</p>

Key messages (continued)

Whole of Government Accounts	We reviewed the consolidation pack which you prepared to support the production of Whole of Government Accounts. We reported that your pack was consistent with the audited financial statements.
Certification of housing benefit grant claim	Our work on the certification of the housing benefit subsidy claim is on-going. We will report the detailed findings of our work in our Grant Certification report upon completion of our work.
Audit fee	Our audit fee for 2014/15 was £230,480 excluding VAT which was in line with our planned fee for the year. The One Oracle system was implemented in 2014/15 requiring additional audit procedures, for which an additional fee of £6,000 excluding VAT has been agreed with management. Additional fees are subject to final determination by Public Sector Audit Appointments Limited. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsibility / due date
1.	<p>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.</p> <p>Recommendation: 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.</p>	High	<p>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.</p> <p>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.</p> <p>Responsibility: Section 151 Officer Due date: Ongoing throughout 2015-16</p>
2.	<p>In common with most councils, you need to identify significant financial savings going forward. The next phase of your savings programme is currently being developed and implemented.</p> <p>Recommendation: 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.</p> <p>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.</p>	High	<p>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.</p> <p>Responsibility: Executive Leadership Team, led by the Section 151 Officer Due date: Ongoing, with 2016-17 budget set by February 2016</p>

Appendix A: Key issues and recommendations (continued)

No.	Issue and recommendation	Priority	Management response/ responsibility / due date
3.	<p>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.</p> <p>Recommendation: Review the schools accounting and consolidation process to ensure schools income and expenditure is not 'double counted' within the financial statements.</p>	Medium	<p>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.</p> <p>Responsibility: Ian Geary, Accountancy Manager & Maria Organ, Finance Business Partner (People) Due date: February 2016</p>
4.	<p>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.</p> <p>Recommendation: 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.</p>	Medium	<p>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.</p> <p>Responsibility: Catherine Black, Benefits & Corporate Debt Manager Due date: December 2015</p>
5.	<p>Our review of assets identified eleven assets outside your 5 year revaluation cycle, with a total carrying value of £6,683k. We are satisfied that there is no material misstatement arising from this departure from your accounting policy, however, these assets should be subject to revaluation in line with the policy.</p> <p>Recommendation: Review the process to identify assets for valuation to ensure all assets are revalued within the 5 year cycle.</p>	Medium	<p>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..</p> <p>Responsibility: Steve Wingrave, Head of Estates and Asset Management Due date: December 2016</p>

Appendix A: Key issues and recommendations (continued)

No.	Issue and recommendation	Priority	Management response/ responsibility / due date
6.	<p>Our IT audit identified three recommendations following the introduction of the One Oracle system.</p> <p>Recommendation: IT recommendations;</p> <ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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. <p>Responsibility: Victoria Richardson, Head of HR and Finance Service Centre</p> <p>Due date: December 2015</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	230,480	230,480
Additional fee for new General ledger	TBC	6,000
Housing benefit grant certification fee	34,340	TBC
Pension fund audit	21,000	21,000
Total audit fees	TBC	TBC

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

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

Fees for other services

Service	Fees £
Audit related services (grant certification outside the Audit Commission regime)	12,900 (expected)
<ul style="list-style-type: none"> • Pooling of housing capital receipts return certification • Teachers Pension return certification • GLA compliance audits 	
Non-audit related services	10,000
<ul style="list-style-type: none"> • Financial Resilience Capacity Building Programme 	

Reports issued

Report	Date issued
Audit Plan	March 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015
Certification Report	December 2015 (expected)



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