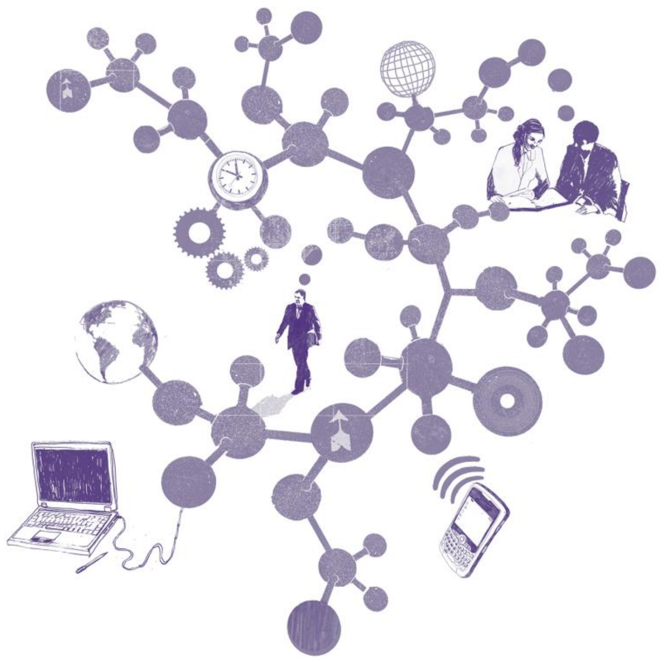
The Audit Findings for the London Borough of Croydon

Year ended 31 March 2016

August 2016



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August 2016

Dear Members of the General Purposes and Audit Committee

Audit Findings for the London Borough of Croydon for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of the London Borough of Croydon, the General Purposes and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with Richard Simpson.

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 and giving a value for money conclusion. 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 issues affecting the results of the London Borough of Croydon and the preparation of your financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, your financial statements give a true and fair view of your financial position and your income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, you have put in place proper arrangements to secure value for money through economic, efficient and effective use of your resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by you or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by you and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan presented to the General Purposes and Audit Committee on 23 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas where updated information was only recently received or remains outstanding:

- review of the critical judgements made by management, including the valuation of PPE and valuation of pension fund net liability;
- review of your minimum revenue provision calculation;
- receipt and review of supporting information to enable completion of sample testing of journals and debtors;
- receipt and review of the final version of the financial statements and revised trial balance;
- final review and quality control procedures;
- obtaining and reviewing the management letter of representation;
- receipt and review of the signed version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion; and
- work in relation to the Whole of Government Accounts.

We received draft financial statements on the 23 June. Accompanying working papers were received over the course of our audit but were not provided alongside the draft statements. We set out later in this section the limited progress made in relation to early closure of the accounts.

Executive summary (continued)

Key audit and financial reporting issues

Financial statements opinion

We have identified two adjusted misstatements. One of these affects your reported financial position (details are recorded in section two of this report) but neither has an impact on your general fund balance. The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £99,978k. The audited financial statements will show net expenditure of £91,968k. This change is driven by the reversal of the provision raised in relation to the PFI sinking fund, which was incorrectly transferred by management from an earmarked reserve to a provision in the draft accounts.

We have also recommended a number of adjustments to improve the presentation of the financial statements.

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

- the draft financial statements were submitted for audit on the 23 June. This represents an improvement in your closedown from last year, although significant efficiencies are required to enable you to meet the 31 May deadline in 2017/18;
- working papers were provided over the course of our audit. The underlying format of the working papers was appropriate and adequately set out, however, there were a number of delays and late adjustments to figures within working papers following submission to audit that caused delays;
- there have been delays in receiving responses for information from outside the core finance team. This has led to delays in our work and has reduced the efficiency of the audit process;
- there were a number of presentation and disclosure errors in the draft financial statements that we identified, which management has agreed to amend.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We have no findings in this respect.

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 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.

Value for Money

Based on our review, we are satisfied that, in all significant respects, you have proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources.

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

Executive summary (continued)

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until November 2016. We will report the outcome of this certification work through a separate report to the General Purpose and Audit Committee which is due in January 2017.

The way forward

Matters arising from the financial statements audit and our 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 at Appendix A. Recommendations have been discussed and agreed with the Assistant Chief Executive (Corporate Resources and Section 151 Officer) and the finance team.

Early close

You continue to 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 statements by 31 May, and secure an audit opinion by 31 July.

We delivered a successful interim audit, with a substantial amount of early audit testing completed during March. This has helped drive efficiencies within the year end audit process and is an essential factor in achieving a subsequent early close and submission of accounts by 31 May.

Following the year end, you presented us with an early (unofficial) set of draft financial statements in early June, but did not provide the formal draft statements until 23 June. This was followed by subsequent working paper submissions in June and July. Whilst this does represent an improvement on your closedown from last year and reflects the efforts made so far in delivering financial statements to an earlier timetable, there is still considerable improvement required before you are able to meet the proposed early close timetable.

You are not currently in a position to deliver early close. Due to the on-going preparation of the financial statements and working papers, we were not able to fully begin our audit until late June. Consequently, we were not in a position to complete by the end of July.

You are undertaking on-going work to develop the finance team following the recent restructure. We do note that there are particular issues with regard to ownership of tasks within the team, which means that officers don't always maximise their involvement beyond their core areas of expertise and the opportunity for the team to achieve 'more than the sum of its parts' is limited. This places additional pressure on senior financial personnel, resulting in only limited quality reviews of statements and working papers prior to their presentation for audit. There are also issues with regard to the 'profile' the accounts and audit processes have within the wider organisation – query response times from outside the core finance team are slow and the quality of responses are often poor. This causes delays to both the accounts preparation and to the audit.

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 is also an important part of this. We have worked with many large clients to successfully implement faster close and will continue to work with you during the coming year to support you in achieving the earlier deadlines, a year before the statutory deadlines are brought forward.

Executive summary (continued)

Acknowledgement

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
August 2016

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £20,901k (being 1.95% of gross revenue expenditure from the prior year). We have considered whether this level remained appropriate during the course of the audit and identified a significant increase in gross revenue expenditure which led us to revise our overall materiality to £22,505k (being 1.95% of gross revenue expenditure per the draft financial statements).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1,000k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have not identified any items which require a separate materiality level.

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 (UK&I) 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 your revenue and expenditure 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; • the culture and ethical frameworks of local authorities, including yourselves, mean that all forms of fraud are seen as unacceptable.	Subject to the satisfactory resolution of outstanding matters, our audit work has not identified any issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have undertaken the following work in relation to this risk: • Review of control environment and internal processes in place in relation the posting of journal entries; • Testing of journal entries; • Review of accounting estimates, judgments and decisions made by management; • Review of unusual significant transactions.	Subject to the satisfactory resolution of outstanding matters, our audit work has not identified any evidence of management over-ride of controls. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Valuation of property, plant and equipment** You revalue your assets on a rolling basis. The Code requires that you ensure the carrying value at the balance sheet date is not materially different from current value. The valuation techniques applied by your valuation experts represents a significant estimate in the financial statements.	• Review of the competence, expertise and objectivity of management experts used; • Testing of revaluation movements made during the year to ensure they are consistent with underlying valuer information and have input correctly into your asset register; • Review of your processes and assumptions for the calculation of the estimate; • Review of the instructions issued to valuation experts and the scope of their work; • Discussions with your valuer about the basis on which the valuation is carried out and challenge of the key assumptions; • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	Subject to the satisfactory resolution of outstanding matters, our audit work has not identified any significant issues in relation to the risk identified.
4.	**Valuation of pension fund net liability** Your pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	• Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • Review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation and gain an understanding of the basis on which the valuation is carried out; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made; • Review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	Subject to the satisfactory resolution of outstanding matters, 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
Employee remuneration	Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • Identification of controls over employee remuneration; • Walkthrough of the employee remuneration cycle; • Testing the year end reconciliation of payroll expenditure recorded in the general ledger to the subsidiary system; • Testing to confirm the completeness of payroll transactions.	Subject to the satisfactory resolution of outstanding matters, our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors related to core activities understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle; • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • 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 an error of £20k within Operating expenses which has been extrapolated to £3.277m. This extrapolated error is not material to the financial statements. Further details are set out later in this report. Subject to the satisfactory resolution of outstanding matters, our audit work has not identified any further significant issues in relation to the risk identified.

Accounting policies, estimates and 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 your 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 as well as collection fund income. • This is recognised appropriately when 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
Judgements and estimates	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 later in this report.	● Green
Going concern	The Assistant Chief Executive (Corporate Resources and Section 151 Officer) has a reasonable expectation that the services you provide will continue for the foreseeable future. Members concur with this view. For this reason, you continue to adopt the going concern basis in preparing the financial statements.	We are awaiting further information in relation to the going concern assumption, subject to the satisfactory receipt of this, we have reviewed the assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 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 and judgements (continued)

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Accounting area	Summary of policy	Comments	Assessment
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 reasonable analysis of the provision required. • However, we noted that the provision has increased by £19m in the current year due to higher volume of appeals and a large specific provision. We are satisfied that the provision is materially fairly stated and adequately supported by underlying data and advice.	● Green
Other accounting policies	We have reviewed you policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed your policies against the requirements of the CIPFA Code of Practice. your accounting policies are appropriate and consistent with previous years. Minor enhancements have been made to the accounting policies for 2015/16.	● 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, as auditors, are required by auditing standards and the Code 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 related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested..
5.	**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.
6.	**Disclosures**	• Our review found no material omissions in the financial statements. • For 2015/16, the Explanatory Foreword to the accounts is now known as the Narrative Report. No significant adjustments have been made to the prior year reporting. We are satisfied that the Narrative Report meets the minimum requirements, however, the intention of the report is to enhance and explain the financial statements, highlighting key developments and messages as well as providing information on how your financial performance and economy, efficiency and effectiveness in your use of resources. You should consider updating the Narrative Report to add additional value to users of the accounts.
7.	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Statement is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of you acquired in the course of performing our audit, or otherwise misleading. We have not identified any issues we would be required to report by exception. We have requested a small number of enhancements to the Narrative Statement as noted above.

Other communication requirements (continued)

	Issue	Commentary
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As you exceed the specified group reporting threshold, we are required to examine and report on the consistency of the WGA consolidation pack with your audited financial statements. Work in relation to the Whole of Government accounts is not yet completed, and will be carried out in September 2016.

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 earlier in this report.

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	**IT findings** In addition to the findings from the previous year (see overleaf), we have identified the following additional risks; 1. Our review noted that there are a number of 'default' responsibilities within the Oracle system. This allows users to perform all functions associated with a role. Our review identified 3,007 users with default responsibilities or a clone of a default responsibility that has no functions or menus excluded. This presents a risk over lack of segregation of duties leading to increase risk of misstatement due to fraud or error. 2. Processes are in place to identify and disable users that have not logged into Oracle or Northgate for over 45 days. However, user accounts and associated permissions within Oracle and Northgate are not formally reviewed. There are also an excessive number of users with administrator rights within Northgate. This presents a risk over account usage and access rights.	1. We recommend that a detailed review is undertaken over default responsibilities, and access functions based on a 'least privileged' principle. This should involve both Croydon and Capgemini users. 2. We recommend that a process is developed to periodically review access privileges and administrator rights of users defined on Northgate and Oracle to ensure that access permissions / responsibilities remain appropriate and that appropriate segregation of duties are in place.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	Amber	**Long outstanding debt** • In the previous year, we identified a large volume of long outstanding debt within your accounts receivable balance. While we were satisfied that the risk of non-payment of these assets has been appropriately provided for, we raised a recommendation to 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.	• Some action has been taken through additional monitoring processes and controls in relation to debts. However, we have not noted a significant movement in the level of long outstanding debt. We continue to recommend that this is reviewed as part of an ongoing process to address and resolve the situation.
2.	Amber	**IT findings** In the previous year, we identified the following IT related 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. 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.	1. This issue remains applicable and applies to default passwords. Management should ensure that all default Oracle application accounts are end-dated, generic accounts and default responsibilities removed and the default passwords changed. Management should ensure that for any future upgrades or developments, a thorough review is undertaken and default passwords changed. This can be done through running the security reports in Oracle Applications Manager. 2. This issue is no longer applicable and we have no findings to report over the use of the 'process tab' in 2015/16. 3. This issue remains partially applicable and one user self-assigned responsibilities in the period. Management have reviewed the policy on allowing users to self-assign privileges and where administrative staff require additional functionality, they are required to apply for this through formal change management procedures. We continue to recommend that monitoring controls should be implemented to identify instances of staff assigning themselves additional responsibilities.

Assessment
✓ Action completed
● Significant deficiency – risk of significant misstatement
● Deficiency – risk of inconsequential misstatement

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which management has agreed to amend in the financial statements.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	**Street Lighting PFI Sinking Fund** You have raised a provision of £8,010k in 2015/16 in relation the the PFI Street Lighting Sinking Fund. This is effectively a transfer from an earmarked reserve held in the previous year. The sinking fund is designed to smooth the impact of future PFI costs on the general fund. However, it relates to liabilities that have not yet been incurred. The balance sheet correctly includes all assets and liabilities in relation to the PFI model. The sinking fund does not meet the definition of a provision as no 'past event' has occurred. However, it does continue to be appropriate to include it as an Earmarked Reserve. You have therefore reversed the transaction back to the Earmarked Reserve. The correcting entries are; Dr Provisions Cr CIES Expenditure Dr Movement in Reserves Statement Cr Earmarked Reserves	 (8,010)	8,010 8,010 (8,010)	 (8,010)
2	**School Funding Prepayments** You made a large payment to schools just before year end in relation to summer term funding. This payment relates to the 2016/17 financial year and was accounted for as a prepayment. However, as the payment was not received by schools until after year-end, it was not included within their cash balances. Maintained schools are consolidated into your single entity accounts, and intra-entity transactions are eliminated as part of this process. As no offsetting receipt in advance was recorded by the schools, the prepayment was not correctly offset upon consolidation. The correcting entries are; Dr Cash and Cash Equivalents Cr Prepayments		52,561 (52,561)	
	Overall impact	**(£8,010)**	**£8,010**	**(£8,010)**

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The General Purposes and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	**Operating Expenses – utility bill (extrapolated error)** Our sample testing of operating expenses identified one item whereby you raised an accrual for the payment of utility bills on behalf of Selsdon Hall for £20,000. Upon further investigation, the accrual was identified as invalid as these expenses had been paid in the year. This error occurred due to mis-coding of invoices within the system. The correcting entries are; Dr Creditors Cr CIES – Expenditure As the error was identified within a sample population, we have extrapolated the impact across the population. The extrapolated entries would be; Dr Creditors Cr CIES - Expenditure	 (20) (3,277)	 20 3,277	The error identified represents an immaterial extrapolated misstatement. It is therefore not appropriate to adjust the financial statements based on an extrapolation.
	Overall impact	**(£3,277)**	**£3,277**	

Misclassifications and disclosure changes

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

	Adjustment type	Value £000	Account balance	Impact on financial statements
1	Misclassification	5,861 and 4,370	N/A	**Note 32 Grant Income** The classification of Sixth Form Funding and Adult Education grant in Note 32 have been input the wrong way round. Sixth Form Funding should be £5,861k and Adult Education should be £4,370k. This will be amended. There is no impact on the CIES or balance sheet.
2	Misclassification	3,639	N/A	**Note 32 Grant Income** A rebate with a value of £3,639k has been allocated as Basic Needs rather than Targeted Basic Needs. This will be amended. This is a disclosure issue within the note and there is no impact on the CIES or balance sheet.
3	Disclosure	294 and 60	N/A	**Note 29 Exit Packages** The pension strain costs in relation to 31 redundancies of staff in 2015/16 were not disclosed within the exit packages note. We also noted one redundancy payment for £60k was included twice within the note. This will be amended. This is a disclosure issue within the note and there is no impact on the CIES or balance sheet.
4	Disclosure	Various	Various	The audit identified a number of typographical and disclosure adjustments which management has agreed to amend.
5	Disclosure	Various	Various	The audit identified a number of low level casting and rounding differences that management has either agreed to amend or has confirmed are immaterial.

Section 3: Value for Money

Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether you have put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified three significant risks, relating to medium term financial plans, regeneration and growth and the impact of policy changes on housing and welfare which we communicated to you in our Audit Plan.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan, which has led to the identification of a new risk in relation to Croydon Care Solutions governance arrangements.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements. In arriving at our conclusion, our main considerations were:

- your financial position, including the 2015/16 outturn with departmental overspends of £8.5m offset by non-departmental underspends;
- your financial planning, with a £26m budget gap to 2019/20, and the need for continued financial vigilance over the 2016/17 budget position and responsiveness to future uncertainties;
- your ambitious plans for regeneration and growth, through the introduction of the Growth Zone and housing development through Brick by Brick;
- your response to welfare change, in particular the impact on the HRA where you are revising your planning assumptions and the introduction of the Gateway services;
- your work to address governance issues with Croydon Care Solutions by bringing the service back in-house.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work over the following pages.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that: you have proper arrangements in all significant respects to ensure you delivered value for money in your use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
Medium term financial plans In line with many other authorities, your medium term financial planning identifies significant budget shortfalls over the coming years. You have set a balance budget for 2016/17, but this will require you to deliver significant savings through the Croydon Challenge programme and departmental savings of over £16m. Over the three year horizon from 2017/18 to 2019/20, you have already identified a further £14m of saving proposals, but will need to find another £26m over this period to close your budget gap. This does represent a reduction in projected budget gaps from last year. Progress continues to be made with council-wide transformation programmes and budget delivery alongside additional funding for Adult Social Care from the increase in Council Tax. However, the identification and delivery of substantial savings continues to be a risk to your overall financial health.	We followed up our findings from last year and review your arrangements over medium term financial planning. This included the reasonableness of significant assumptions around inflation, growth and savings as well as the impact of the Settlement Funding Assessment. We considered your plans to close the projected budget gap from 2017/18 to 2019/20, including identification of savings plans, arrangements for monitoring and managing delivery of budgets and the potential impact on service delivery.	**Summary findings** • 2015/16 outturn position of £1.2m underspend consisting of a significant departmental overspend of £8.5m (largely in demand led services), offset by non-departmental underspends of £9.7m. • For 2016/17, you have set a balanced budget, with generally robust underlying assumptions. • You have increased Croydon's share of council tax by 3.99% but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required across the organisation. • Medium term financial plans show narrowing of the budget gap to 2019/20 from £78m to £26m, but vigilance over the position and risks is still required to address future uncertainties. Longer term growth assumptions are lower than that experienced to date, so the forecast may need to be revised should growth exceed expectation. **2015/16 Financial Performance** For 2015/16, you have delivered an outturn underspend of £1.2m against budget. This provides on-going stability in your overall financial position, and has enabled you to post a small increase in your underlying reserves. The outturn is also reflective of the importance of your robust budget monitoring process. Earlier in the year, you had forecast a more substantial budget overspend. You took mitigating actions to address this position early, with controls such as a recruitment pause, fewer extensions for interim staff and an acceleration of the voluntary severance scheme. Combined with other departmental and non-departmental measures, this enabled you to deliver the outturn underspend. However, the position does continue to reflect a substantial departmental overspend of around £8.5m, offset by non departmental underspends. As with last year, the overspend is driven by demand led pressures - in particular within the People department functions such as looked after children's services, adult services and temporary accommodation. Demand growth has now continued for a number of years, and the continuous increases are reflective of the significant challenges you face in setting the baseline budgets. You have acknowledged the overspend is a deficiency within the underlying budget position and have sought to address this in the 2016/17 budget with growth of around £9m focussed on the People department. However, similar levels of growth were included for 2015/16, and the overspend continued to materialise, highlighting the on-going importance of cost control and successful transformation initiatives, such as the Gateway, within these services. The full impact of these initiatives and their ability to control demand is not yet understood. Should growth again exceed plan, this will create the further need for mitigating actions and budget constraint, which could have knock-on implications for other departments. The offsetting underspends relate to non-departmental items. The most significant is a reduction in borrowing costs arising from advantageous rates from the European Investment Bank (EIB), but also underspends on your capital programme of £50m (28%). While capital underspends provide short term relief in terms of avoided interest and MRP charges, it can place additional pressures on service delivery, savings and transformation plans through non-delivery of supporting schemes. You have a number of large-scale projects over the coming years to achieve

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Medium term financial plans (continued)		your growth strategy, so delivering the expanded capital programme in accordance with the planned timetable will be critical to enabling the growth expected for Croydon. Alongside this, you have reduced your provision for repayment of debt (minimum revenue provision). While the provision remains materially reasonable, reducing this expenditure in the short term serve s only to defer costs to future years. **Looking towards 2016/17 and beyond** You set a balanced budget for 2016/17 in February 2016. Reductions in funding, inflation and service growth presented an overall budget gap of £21.7m. You have closed this through an increase in Croydon's share of council tax of 3.99%, combining a 1.99% increase and an additional 2% for the Social Care Precept, savings, efficiencies and a variety of income options. Underlying assumptions include pay rises of 1%, set in line with the settlement for officers, and assumptions around third party contract costs and interest payments. The growth within the People department of £9m appropriately reflects the continued increase in the demand pressures that led to the 2015/16 overspend. However, constraining growth to this level will still require substantial savings in the region of £6m. The savings plans overall total £16.3m and are detailed in terms of both individual projects and cross-cutting transformation initiatives such as the Croydon Challenge programme and outcomes based commissioning, which are expected to deliver a substantial savings going forward. Over the medium term, your projected gross budget gaps have reduced significantly from last year. You have gone from a 3 year 'gap' of £56m last year to just £26m this year. A number of factors drive this improved position, including a better than expected financial settlement, which now provides more certainty over your central funding for the next 4 years, alongside changes to national and local thinking that can facilitate additional increases in council tax, particularly from the social care precept. You have also made progress in identifying further savings, with an additional £13m already identified beyond 2016/17. However, there remain a number of assumptions in the medium term plans that will need be revised as the situation becomes clearer. The demand growth for 2017/18 onwards is assumed at £5m p/a, but recent experience has required growth assumptions of double this level. As Croydon grows over this period, it will be imperative to align the medium term planning with the growth assumptions in the wider borough context, and not just based on the existing population. The finance settlement offers greater certainty over your grant position for the next four years, but there are a number of uncertainties that may impact your future position, for example, the full impact of the Brexit vote is still unclear. Overall, the budget plans for 2016/17 are robust, and the medium term planning show an improving outlook which is broadly in line with your high level thinking over council tax and growth plans. However, as noted in our review of the 2015/16 outturn, there are longer term pressures from demand led services that could continue to manifest in 2016/17 and beyond. Vigilance is still required to make sure that you meet the budget expectations and focus is now being applied towards addressing the residual budget gaps. **On that basis we concluded that the risk was sufficiently mitigated and you have proper arrangements. However we have raised a recommendation which can be seen in Appendix A of this report.**

Key findings (continued)

<table>
<tr><th>Significant risk</th><th>Work to address</th><th>Findings and conclusions</th></tr>
<tr><td>Regeneration and growth
You have ambitious plans to reshape Croydon through regeneration and growth. Working with partner organisations, the aim is to deliver more jobs, affordable homes and better infrastructure and facilities in the borough. You are pursuing innovative models of delivery, such as the Revolving Investment Fund to support schemes within your Growth Promise through funding outside the capital programme with minimal impact on the revenue budget. You have also formed a development company to deliver regeneration and provide homes.
The plans for the borough are substantial and will require radical changes to the way in which you commission and deliver projects. The programme includes a number of key projects and investments, which are significant both in scale and financial terms.</td><td>We reviewed the project management and risk assurance frameworks established in respect of the more significant projects, to establish how you are identifying, managing and monitoring these risks.

We reviewed progress made and significant developments in year, and the overall outcomes and expectations from the projects.</td><td>Summary findings
There are a number of substantial regeneration projects planned, the largest being Growth Zone which is supported by Central Government. The project will lead to significant growth opportunities in business rates as well as creating new jobs and at least 10,000 new homes.
The scale of the plans is far larger than anything attempted before, so it is critical they are well supported and well managed, with any delays having the potential to stall the wider growth.
Brick by Brick has been set up as a means by which you could help generate an additional supply of new homes, including affordable homes. This presents a mix of small and large scale projects, delivering homes, public realm, retail and leisure space.
Adequate governance arrangements are in place for both projects and you are seeking to mitigate risks arising from the issues noted with regard to Croydon Care Solutions.
There are significant regeneration and growth opportunities in Croydon, and over the coming years you expect to deliver substantial transformation including the central redevelopment and Westfield shopping complex, tens of thousands of new jobs, 10,000 new homes being built and major infrastructure investment. All of this requires substantial planning and project management, and you continue to seek to harness these opportunities through a number of key initiatives.

Growth Zone
The "Growth Zone" is a major part of the growth strategy. It is an ambitious and transformative initiative designed to support growth in Croydon and accommodate the demands of a significantly increased population. Working closely with key stakeholders including the GLA, TFL, Network Rail and Central Government, the plans are based around a Tax Increment Financing Model (TIF) that will enable you to borrow to fund infrastructure improvements, financed by future retained business rate growth. You have already received a £7m grant from Central Government for the initial stages of the plan.

Your plans consist of 39 critical infrastructure projects, such as improved transport links, with an aim to generate significant investment within the borough, benefitting residents and the council itself. There is substantial infrastructure investment required to meet objectives of the project. Your contribution is currently estimated at £309m, peaking at £60m in 2020. The grant provided by DCLG will ease short term borrowing cost pressure with business rates uplift providing long term financing for the project.

However, due to the scale of the project, there are a number of associated risks. Financially, there are risks around the scale of the capital plans, being far beyond what you have delivered previously – it will be critical to ensure plans are well supported and well managed, as delays in delivering infrastructure could stall the wider growth. The TIF model is designed to mitigate some of the risks in the timing of the returns from the project being longer term than the initial borrowing requirement. This means that should the business rate growth fail to</td></tr>
</table>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Regeneration and growth (continued)		materialise, the additional borrowing costs will present an inevitable financial challenge in the future. However, despite the risk involved, there are potentially enormous benefits for Croydon as a whole. If successful, it is clear that this project could be the catalyst for large-scale growth and regeneration. You have taken a prominent and critical enabling role in the plans and recognise both the risks and benefits associated with what you are looking to achieve. The Growth Zone plans are clearly informed by well developed risk assessments which have been presented to Cabinet, combined with consultations which are underway and a steering group to assist the project management process and monitor delivery issues. While many of the detailed arrangements are still in their infancy, we are satisfied there is sufficient governance as well as project and risk management frameworks in place at this stage. **Brick by Brick** Brick by Brick is a council-owned company, set up to maximise the use of your existing assets to deliver new homes throughout the borough, in particular where traditional development routes may not be available. The company will begin operating in 2016, and initial work has looked at a number of small sites for development, accommodating 11-50 units each including affordable housing. On the horizon are also more substantial developments including College Green, with over 1,200 homes. This will be a far more substantial project, requiring over £30m investment. The plans may require working with partners through joint venture style models to deliver the more substantial residential and commercial opportunities. Brick by Brick's governance structures are in line with our expectations, with project managers and project management teams in place, reporting into a project board. As the sole shareholder, council officers attend the board as observers and there are mechanisms to report information back to the council itself. The Council approved the transfer of land to Brick by Brick in June 2016. **Overall risk and governance arrangements** These key projects for regeneration and growth have adequate governance arrangements in place. You have a robust oversight framework in place for both projects. **On that basis we concluded that the risk was sufficiently mitigated and you have proper arrangements.**

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Impact of policy changes on housing and welfare The Autumn Statement included a number of announcements intended to increase the availability and affordability of housing, including reduction in housing rents and right to buy changes. The reduction in rents will require significant savings to be made by the HRA. Demographic changes in the borough place additional demand on housing, welfare need and may impact homelessness. The plans and outcomes from the changes in government policy will be substantial both in terms of delivery of service and finances.	We reviewed your plans over the policy changes and actions proposed to resolve the financial implications of the schemes.	**Summary findings** • The HRA is expected to reduce rents by 1% p/a for the next 4 years, which contrasts with your longer term assumptions within the HRA's 30 year business plan. There is uncertainty around future legislative changes and the HRA business planning needs to be revised to take this into account. • You are responding to welfare reform and demographic change through the Gateway services. This has proven successful, and is expected to deliver financial benefit to the Council as well as residents. • However, there remains risk over the impact of further demand pressure as private rents rise and funding for Discretionary Housing Payments may fall. The impact of changes in welfare policy and continued demographic change are expected to create additional pressure and demand within the services and impact your financial planning. You are seeking to mitigate the risks and deliver change within the borough through core initiatives such as the Gateway services. However, there remains uncertainty over the impact of forthcoming legislative changes on key areas such as the HRA. **Housing Revenue Account (HRA)** As a provider of social housing, you are expected to reduce rents by 1% p/a for the next four years. This contrasts with your longer term assumptions within the HRA's 30 year business plan which is predicated on rising or stable rents. This creates an obvious disconnect between policy and plans, and will create pressures within the HRA over the coming years. The reduction in rents means that the HRA will need to make savings of over £13m over the next 3 years, and much of this may need to be delivered from cuts to the services provided to residents. The future HRA position is uncertain and will depend on the outcome of further legislative changes, in particular the expected requirement to dispose of high value HRA properties to support the right-to-buy of housing association properties and the "pay to stay" initiative for high income social tenants to pay close to market rents. The HRA reserves at 31 March 2016 were around £13.6m, which means that some of the impact can be absorbed. However, if the pressures manifest themselves in the medium term, that balance could be depleted quickly. Given the uncertainty around the HRA position, the action taken to date is reasonable. However, it is imperative you fully develop a revised HRA business plan once the position becomes clearer. **Responding to demand and Gateway services** You continue to experience significant pressures on welfare and related services. From a financial perspective, you have noted an increase in rent and council tax arrears, alongside increased pressures on housing and social services. From April 2016, Universal Credit was implemented in the borough, alongside a reduction in the benefits cap. This has been partly offset by the introduction of the National Living Wage. You have estimated that key changes have affected around 26,000 customers losing over £31m in welfare benefits between April 2013 and April 2017.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Impact of policy changes on housing and welfare (continued)		To respond to these challenges, you have invested in the Gateway services. These are based around enhancing your ability to support customers – with principles of developing their skills around managing money, use of digital services and getting them the skills and opportunities to enter full-time employment. Fundamentally, this is based around the aim to help families help themselves. The Gateway has brought together existing services to create greater co-ordination and reduce duplication of functions. So far, the Gateway has proven successful in supporting a large number of households – with improved rent arrear performance and early action to prevent homelessness. These actions are expected to manage future financial pressures, in particular the cost of temporary accommodation. You have also made sure to focus on high need individuals, for example a review of the 50 most expensive residents. This is seeking to best support their complex needs and reduce the pressure these can create for you and other agencies. There remain a number of key risks arising from demographic change and government funding support. For example, increases in private rents combined with fixed Local Housing Allowance payment can increase pressures of private tenants and exasperate homelessness issues. Our discussions with officers have already noted that there is pressure on the Discretionary Housing Payments (DHP) and local housing payments budgets, whereby you can allocate additional payments to residents over and above their welfare entitlement. These payments can be useful in making sure people are kept within their homes instead of having to move them to more costly temporary accommodation. Your Gateway approach and support programmes aim to mitigate the risks arising, and we are satisfied that you recognise the challenges you face and are putting in place appropriate arrangements to deal with the challenges. **On that basis we concluded that the risk was sufficiently mitigated and you have proper arrangements. However we have raised recommendations which can be seen in Appendix A of this report.**
Croydon Care Solutions (CCS) governance arrangements In February 2016, internal audit released a "No assurance" report into contract management and governance arrangements for CCS. This presents a risk over the adequacy of your governance arrangements.	We reviewed the findings from Internal Audit and the actions being taken to address the weaknesses identified. We have considered the impact on other key delivery vehicles.	The internal audit report raises a number of issues around contract compliance with Teckal/in-house exemptions, the existence of a final pooled budget agreement, legal advice availability for contract entered into, the retention of contract documentation, contract planning documents going forward and the absence of an overall contract management strategy. Discussions with officers has confirmed that services are planned to be brought in-house to enable them to be managed effectively going forward. **On that basis we concluded that the risk was sufficiently mitigated and you have proper arrangements.**

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement.

Management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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

	Proposed fee £	Final fee £
Council audit	172,860	TBC
Grant certification	24,894	TBC
Total audit fees (excluding VAT)	**197,754**	**TBC**

Fees for other services

Service	Fee £
Non-audit services:	
• Outline Business Case for Croydon Council and London Borough of Lambeth Legal Service Alternative Business Structure	31,433
• Financial Resilience Capacity Building 2016	3,500

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

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.

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 to those charged with governance

International Standards on Auditing ISA (UK&I) 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.

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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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 at the time of our appointment. 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 NAO (https://www.nao.org.uk/code-audit-practice/about-code/). 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 of your business, and that public money is safeguarded and properly accounted for. We have considered how you are 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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	You should actively seek to identify and control demand led pressures within the People department, ensuring appropriate mitigations are in place to restrain the demand led growth and ensure the budgetary provision is sufficient, given the level of previous overspends.	High	Action is being taken to manage the People Department budget. The 3 key overspending areas of the department continue to be monitored monthly (Adult Social Care, Children's Social Care and TA), along with a governance board attended by officers and members to review and challenge expenditure and progress on savings. Key areas of focus are :- • TRASC - a programme to transform the adult social care service • A review of the top 50 families to better understand their costs and management of. • A review of TA supply to reduce costs. The Council is also undertaking a large managing demand programme that largely focuses on the People department and it is anticipated that this will enable behaviour change both internally and externally to reduce and help manage costs.	Executive Director of Resources and S151 Officer. Ongoing through the year.
2	You should update the HRA business planning to take into account the effect of rent reductions and assess the longer term impact on the HRA as more detail becomes available from welfare reform and legislative changes.	High	Work is currently underway to update the HRA business plan to model the impact of all known changes, including pay to stay, high value voids, 1% rent reductions, welfare reform and changes in the new build programme. Some of this modelling is proving difficult as there is still a substantial level of uncertainty around the timing of some of these new initiatives. This work is being undertaken over the autumn to feed in to the budget setting process.	Finance team and Service Department Autumn 2016

Appendix A: Action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	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. This recommendation was raised in 2014/15	Medium	The write off policy has been reviewed and re-drafted to take into consideration audit comments and recommendations, however this has not yet been signed off by relevant senior Council officials. This will be complete by end of September 2016. Processes have been reviewed following a previous recommendation and we are exploring new recovery and enforcement routes for the collection of aged debt. Some examples of this are, • We have drafted a new policy and business case to support the recovery of works in default debt through enforced sale. Business Case reviewed by Graham Cadle August 2016 • We are also trialling, issuing County Court Judgments (CCJs) to individuals who owe the Council older debt, to act as a prompt for payment, prior to petitioning for Bankruptcy. Trial began July 2016 • We are working with partners and other collection agencies to trial sending some of the older debt to them for collection, and we will benchmark the ROI. Trial to start September/October 2016	Catherine Black Benefits and Corporate Debt Manager 30 September 2016

Appendix A: Action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	IT recommendations; 1. A detailed review should be undertaken over default responsibilities, and access functions based on a 'least privileged' principle. This should involve both Croydon and Capgemini users. 2. A process should be developed to periodically review access privileges and administrator rights of users defined on Northgate and Oracle EBS to ensure that access permissions / responsibilities remain appropriate and that appropriate segregation of duties are in place. 3. 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. This recommendation was raised in 2014/15. 4. 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. This recommendation was raised in 2014/15.	Medium	1. This is being addressed by our hosting and support provider Capgemini who are undertaking a security review. Confirmation of the date this review will be completed is being sought from Capgemini. 2. There is already an established process in place to end date user accounts for leavers with the Oracle support provided by a shared service provider. A rolling review programme of access privileges and administrator rights will now be implemented. 3. This has been referred to our hosting and support provider Capgemini to determine their current policy and confirm action taken as a result of the recommendation being raised in 2014/15 4. This is unacceptable practice and it is our policy that users do not self-assign responsibilities. The only users who now have access to assign responsibilities are those in the shared application support team and these officers know that they do not assign responsibilities to themselves. The process they would follow is to raise a ticket on the Helpdesk and get Team Leader Approver (recorded on the ticket) and then get one of the L1s (or another L1) to allocate the responsibility – recording the ticket number on the user access screen. A request will be made to the One Oracle support team to investigate the possibility of generating a periodic report to identify users who have self-awarded production responsibilities in case of non-compliance.	Head of HR & Finance Service Centre 30 September 2016

Appendix B: Audit opinion

We anticipate we will provide you with an unmodified audit report or amend as appropriate

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

We have audited the financial statements of the London Borough of Croydon (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 (Corporate Resources and Section 151 Officer) and auditor

As explained more fully in the Statement of the Assistant Chief Executive (Corporate Resources and Section 151 Officer)Responsibilities, the Assistant Chief Executive (Corporate 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 2015/16, which 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 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 (Corporate 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 Narrative Statement and the Annual Governance Statement 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:
present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Statement and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
in our opinion the Annual Governance Statement does not comply with the guidance included in '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 24 of the Act; or
we make a written recommendation to the Authority under section 24 of the Act; or
we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

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 Authority 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 2016. 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 Act and the Code.

OR

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

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

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….. September 2016

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