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Audit & Governance Committee Supplementary Agenda

6. **Audit & Governance Committee 2023-24 Work Programme** (Pages 3 - 4)

   To note the Audit & Governance Committee Work Programme for the remainder of the municipal year.

8. **External Audit Findings Report on the 2019-20 Statement of Accounts** (Pages 5 - 116)

   To note the reports from the external auditors (Grant Thornton UK LLP)

   Report and Appendices 1-3

9. **Risk Register Entries "Deep Dive"** (Pages 117 - 124)

   The presentations update the Audit & Governance Committee Members on progress against selected entries from the corporate risk register (the register).

   Appendix 1 - Gas Safety Compliance

10. **Revenue & Capital Monitoring Improvements** (Pages 125 - 178)

    To note progress against the recommendations from two external reviews:

    Report and Appendices 1-3

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Audit & Governance Committee Work Programme 23-24

1-Feb-24	Risk deep dive	Malcolm Davies, Head of antifraud, risk & insurance
	AGS (Update on Action Plan 2022/23)	Stephen Lawrence-Orumwense, MO
	DSG 2023-24 Financial Update	Charles Quaye, Acting Head of Finance
	Quarterly Whistleblowing Update	Stephen Lawrence-Orumwense, MO
	Financial Statements / Accounts 2020/21	Ian Geary, Head of Finance (Corporate and Treasury Management)
	Software Systems Review Update	Paul Golland, Interim Chief Digital Officer & Director of Resident Access
14-Mar-24	Financial Statements / Accounts 2020/21 - external audit report	Ian Geary, Head of Finance (Corporate and Treasury Management)
	Financial Statements / Accounts 2021/22	Ian Geary, Head of Finance (Corporate and Treasury Management)
	Anti Fraud & Corruption Strategy	Malcolm Davies, Head of antifraud, risk & insurance & Michael O'Reilly (Lambeth)
	Software Systems Review Update	Paul Golland, Interim Chief Digital Officer & Director of Resident Access
	Oracle Improvement Programme Update	Jane West, S151 Officer & Mark Moody, Programme Lead
	People & Cultural Transformation Update	Elaine Jackson, Interim Assisant Chief Executive
11-Apr-24	Revenue and Capital Monitoring Improvements	Allister Bannin, Director of Finance (Deputy S151)
	Corporate Risk Register EoY report	Malcolm Davies, Head of antifraud, risk & insurance
	Anti Fraud Report EoY report	Malcolm Davies, Head of antifraud, risk & insurance
	Financial Statements / Accounts 2022/23	Ian Geary, Head of Finance (Corporate and Treasury Management)
	Financial Statements / Accounts 2021/22 - external audit report	Ian Geary, Head of Finance (Corporate and Treasury Management)

July 2023 - Agreed Officers to provide updates to Committee on Fairfield Halls as information becomes available.

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LONDON BOROUGH OF CROYDON

REPORT:		Audit and Governance Committee
DATE OF DECISION		30 November 2023
REPORT TITLE:		External Audit Interim Findings Report on the 2019-20 Statement of Accounts
CORPORATE DIRECTOR		Jane West Corporate Director of Resources (Section 151 Officer)
LEAD OFFICER:		Allister Bannin, Director of Finance (Deputy S151)
LEAD MEMBER:		Cllr Jason Cummings, Cabinet Member for Finance
KEY DECISION?	No	Reason: N/A
CONTAINS EXEMPT INFORMATION?	No	Public Grounds for the exemption: N/A
WARDS AFFECTED:		All

1 SUMMARY OF REPORT

1.1 This report presents three reports from the external auditors (Grant Thornton UK LLP):

- The interim audit findings report for the Council to provide an update, with the final accounts and final audit findings report expected to be presented to the next Audit and Governance Committee meeting. The interim audit findings report includes recommendations and management responses to these.
- The Value for Money Findings Report for 2019/20.
- The Audit Findings Report for London Borough of Croydon Pension Fund.

2 RECOMMENDATIONS

The Audit and Governance Committee is recommended to:

2.1 note "The Interim Audit Findings Report for London Borough of Croydon" from Grant Thornton UK LLP (Appendix 1) and the management responses to the action plan which are set out within the action plan from page 42 of the report onwards.

2.2 note the estimated external audit fees relating to 2019-20 as detailed in the Interim Audit Findings Report and that the final fees will be agreed with the s151

Officer and approved by Public Sector Audit Appointments (PSAA) before payment of the final fees outstanding.

2.3 note the “Value for Money Findings Report for 2019/20 (Appendix 2).

2.4 note “The Audit Findings Report for London Borough of Croydon Pension Fund” (Appendix 3).

3 REASONS FOR RECOMMENDATIONS

3.1 The terms of reference of the Audit and Governance Committee include to “oversee the financial reporting and annual governance processes” and “to review the annual statement of accounts and specifically to consider whether appropriate accounting policies and the CIPFA Financial Management Code have been followed, and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council”.

4 BACKGROUND AND DETAILS

4.1 The amended 2019-20 unaudited Statement of Accounts were presented to Audit and Governance Committee on 20 July 2023, together with a report explaining the key changes made to them since their publication on 19 October 2020.

4.2 The external audit of the 2019-20 accounts has subsequently continued and “The Interim Audit Findings Report for London Borough of Croydon” from Grant Thornton UK LLP is provided in Appendix 1.

4.3 Please note that the Council is still making final adjustments to the Statement of Accounts and the final accounts, with the final Audit Findings Report, are expected to be presented to the next Audit and Governance Committee meeting.

4.4 The Audit Findings Report includes an action plan appendix which provides recommendations as a result of issues identified during the course of the audit, and the Council’s management response to these. The auditors will report on progress on these recommendations during the course of the following year’s audit.

4.5 The estimated external audit fees relating to 2019-20 are detailed in the Audit Findings Report (Appendix 1). The final fees will be agreed with the s151 Officer and approved by Public Sector Audit Appointments (PSAA) before payment of the final fees outstanding.

4.6 In the period following the 2019-20 unaudited Statement of Accounts being presented to Audit and Governance Committee on 20 July 2023, the following key areas have been updated in the accounts:

Capitalisation Direction

4.7 The Council received an "in principle" confirmation from the Department for Levelling Up, Housing and Communities (DLUHC) to agree a capitalisation direction for up to £126m in 2019-20, to address legacy issues. The council has used the capitalisation direction in full, taking the opportunity to remove the negative general fund balance of £3.934m, and supplement financial reserves by £3.235m.

Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP

4.8 The accounting for Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP has remained unchanged from the accounts presented in July 2023. The resolution of this accounting was a key step for the "in principle" capitalisation direction referred to in paragraph 4.7 to be confirmed.

Minimum Revenue Provision

4.9 A review of the Council's Minimum Revenue Provision policy has determined the Council was not setting a prudent amount of revenue aside to repay debt in 2019-20. This has been amended to include a provision to repay debt for Investment Properties funded through borrowing, as well as borrowing to fund capital loans made to Brick by Brick. This change will add **£3.164m** to the General Fund in 2019-20, which will be funded from earmarked reserves available in 2019-20.

Fairfield Halls

4.10 The Fairfield Halls had been accounted for and disclosed as an operational asset during the period of its refurbishment between 2016 and 2019. On review, this should have been accounted for in the Assets Under Construction category of the balance sheet, as the premises were not open to the public. This amendment will have implications on asset revaluation changes made for the Halls, as well as the removal of depreciation charges that were applied whilst the asset was not operation. It will therefore require the majority of financial disclosures in the 2019-20 statement of accounts to be updated. This change will be applied into the Statement of Accounts once the audit review of the proposed accounting changes is completed. There will be no impact on the council's usable balances or reserves as a result of this amendment.

Subsequent Events

4.11 The disclosure of subsequent events in the 2019-20 Statement of Accounts has been expanded upon, including reference to both Reports in the Public Interest, Section 114 notices and the status of Brick by Brick.

4.12 The table below sets up the cumulative impact of the changes to the 2019-20 accounts on the Council's General Fund position.

Capitalisation Direction Applied to 2019-20 Accounts

Reason for change	**Accounts July 2023 (£000's)**	**Accounts November 2023 (£000's)**
Transformation expenditure removed	73,078	73,078
Credit loss for bad debt	28,872	28,872
Reduction in recharge to HRA	10,173	10,173
Cumulative MRP	3,544	6,708
Increase in General Balances	3,934	3,934
Increase in Earmarked Reserves	6,399	3,235
Total Capitalisation Direction applied to 2019-20 accounts	**126,000**	**126,000**

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 None.

6 CONSULTATION

6.1 None.

7. CONTRIBUTION TO COUNCIL PRIORITIES

7.1 This report supports the Mayor's Business Plan 2022-2026 objective one "The council balances its books, listens to residents and delivers good sustainable services".

8. IMPLICATIONS

8.1 FINANCIAL IMPLICATIONS

8.1.1 A capitalisation direction of £126m is required in 2019-20, which must be repaid by the General Fund over a period of 20 years.

8.1.2 The external audit fees by Grant Thornton UK LLP will be funded through revenue budget and earmarked reserves (including the Opening the Books reserve).

Comments approved by Allister Bannin, Director of Finance (Deputy s151 Officer).

8.2 LEGAL IMPLICATIONS

8.2.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that under Section 3 of the Local Audit and Accountability Act 2014, the authority must keep adequate accounting records, and must prepare a statement of accounts in respect of each financial year.

8.2.2 Regulation 7 of the Accounts and Audit Regulations 2015 ('the Regulations') requires the authority's statement of accounts to be prepared in accordance with the Regulations and proper practices in relation to accounts.

8.2.3 Regulation 9 sets out the requirements for the signing and approval of the statement of accounts. In particular regulation 9(2) provides that subject to the requirements of regulation 9(3) and following conclusion of the period of exercise of public rights in regulation 14 the Council must in the following order:

(a) Consider either by way of a committee or by members as a whole the statement of accounts;

(b) Approve the statement of accounts by a resolution of that committee or meeting; and

(c) Ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given.

Regulation 9(3) requires the responsible financial officer to re-confirm on behalf of that authority that they are satisfied that the statement of accounts presents a true and fair view of:

(a) the financial position of the authority at the end of the financial year to which it relates; and
(b) that authority's income and expenditure for that financial year, before that authority approves it.

8.2.4 The terms of reference of the Audit and Governance Committee include to "oversee the financial reporting and annual governance processes" and "to review the annual statement of accounts and specifically to consider whether appropriate accounting policies and the CIPFA Financial Management Code have been followed, and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council".

8.2.5 The authority is also under a general duty "to make arrangements for the proper administration of their financial affairs" under Section 151 of the Local Government Act 1972.

8.2.6 In addition, keeping adequate accounting records, and following proper practices in relation to accounts may impact on the authority's ability to deliver its functions in a manner which promotes economy, efficiency, and effectiveness, and therefore the consideration of this report also seeks to demonstrate the authority's compliance with its Best Value Duty under the Local Government Act 1999. In this regard, Members attention is specifically drawn to the findings in Appendix 2 "Value for Money Findings Report for 2019/20" which set out in summary that: "On the basis of the significance of the matters we identified with your levels of reserves, the governance of the Council's Alternative Delivery Models, the financing of the Council's Group Structures, the issues within the refurbishment of Fairfield Halls and the condition of the Council's Housing Stock, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion."

Comments approved by Jane West, Corporate Director Resources and Section 151 Officer, 24/11/2023.

8.3 HUMAN RESOURCES IMPLICATIONS

8.3.1 There are no immediate HR implications arising from the content of this report. Should any matters arise, these will be managed in line with the appropriate Council policies and procedures.

Comments approved by Dean Shoesmith, Chief People Officer, 22/11/2023.

8.4 EQUALITIES IMPLICATIONS

8.4.1 The Council has a statutory duty to comply with the public sector equality duty set out in section 149 of the Equality Act 2010. The Council must therefore have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

8.4.2 Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

8.4.3 This report is exempt from an EQIA as it does not affect service delivery and is not a key decision item.

Comments approved by Naseer Ahmed for Equalities Programme Manager, 22/11/2023.

9. APPENDICES

9.1 Appendix 1 - The Interim Audit Findings Report for London Borough of Croydon
Appendix 2 - Value for Money Findings Report for 2019/20
Appendix 3 - The Audit Findings Report for London Borough of Croydon Pension Fund

10. BACKGROUND DOCUMENTS

10.1 None.

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Grant Thornton

Appendix 1

The Interim Audit Findings Report for London Borough of Croydon

Financial Year ended 31 March 2020

30 November 2023

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Croydon ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council . This has had an impact on both the front-line services operated by the Council and back-office function roles, where individuals and service departments have had to get used to a new way of working as the pandemic has progressed. As a local authority you are at the forefront of efforts to support local people and clearly your focus will be directed to supporting the local community as best you can in these exceptionally difficult circumstances. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 24 November 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 5. Restrictions for non-essential travel has meant both the Council's finance team and our audit team had to adapt to remote working arrangements. Your finance team was well set up for remote working and there were no changes in key financial processes that impacted on our approach to your audit. Both teams had to be flexible in approaches to sharing information. We agreed to use video calling to watch your finance team run the required reports to gain assurance over completeness and accuracy of information produced by you. We made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries took longer than face to face discussion. Regular meetings were held with the finance teams to highlight key outstanding issues and findings to date. We used a query log to track and resolve outstanding items. By the conclusion of the audit, all restrictions relating to Covid-19 had been lifted and the latter stages of the audit reverted to face to face meetings.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements: • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was undertaken remotely over an extended period from October 2020 when the original draft financial statements were received. The majority of the audit work was completed by August 2021. At the same time we reported to officers that we did not agree with the accounting treatment of a complex technical issue relating to Croydon Affordable Homes. Officers sought external support and ongoing discussions were held throughout 2022 until an agreed position was reached in February 2023. The resolution of all audit identified adjustments required officers to represent the draft financial statements which were then provided to the July 2023 Audit Committee. Given the scale of the adjustments additional audit work was required and the audit recommenced in August 2023. Our findings to date are summarised on pages 4 to 35. We identified eleven adjustments to the financial statements that have resulted in a £143.977 million adjustment to the Council's 2019/20 net expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation, following a considerable update to reflect the challenges you have faced as an authority over the past three years. .

1. Headlines

Financial Statements

(continued from previous slide)

Our work is subject to review of the audit adjustments included within the revised statement of accounts including resolution of the accounting treatment of Croydon Affordable Homes and Fairfield Halls. In addition, given the time since the balance sheet date, the subsequent events review is ongoing and we expect to request additional amendments.

At this stage we are still considering the impact of all of the issues identified on our audit opinions for both the group and single entity accounts, and thus at this stage we are not able to provide you with a view on what our likely opinions will be on either set of accounts

Our audit is also subject to the following closing procedures which necessarily take place at the end of the audit:

- Agreement and receipt of your management letter of representation
- Receipt and review of the final set of approved financial statements
- Receipt and review of the final approved Annual Governance Statement
- Final internal quality reviews of the File
- Closure of the Financial Reporting Technical Review

We expect the outstanding matters to give rise to further amendments and this is therefore an interim report. We will report the final position to you before we issue our opinion.

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that London Borough of Croydon Council did not have proper arrangements in place during 2019/20 to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. The significant risks identified at planning and subsequent to the planning stage are outlined below.

VfM significant risks identified at the planning stage communicated to TCWG within the audit plan on 17 March 2020:

- The Authority's Financial Sustainability, including the Authority's arrangements for addressing the risks arising from Brexit
- OFSTED Inspection of Children's Services
- The Governance of the Authority's Alternative Delivery Models

VfM significant risks identified subsequent to the planning stage and communicated to TCWG within the audit plan addendum on 2 December 2020:

- Governance of Finance and Group Structures

See overleaf for conclusions from our work performed in this area.

1. Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We anticipate issuing a qualified adverse value for money conclusion. Our findings leading to this conclusion are summarised in a separate report. A summary of our findings resulting in this conclusion can be found below: • The budget set for 2020/21 was deemed to be unrealistic and further reported within our October 2020 Public Interest Report (PIR); • Failings in financial management and governance reporting within our Public Interest Report which covered arrangements during 2019/20; • The Council issues its first Section 114 Notice in November 2020 after identifying an in-year £66m budget gap which the Council on its own could not resolve, indicating issues with the budget setting arrangements; • Issues were identified with the governance and oversight of the Council's wholly owned subsidiaries, which included wide ranging issues with the performance of Brick by Brick Croydon LLP, along with the striking off of the London Borough of Croydon Holdings Co. due to the Council failing to file the relevant paperwork in a timely manner; • Internal Audit issued an overall Limited Assurance Conclusion on the 2019-20 Financial Year, with a wide range of issues identified in a number of different areas of the Authority; • Issues were identified in respect of the quality of the Council's Housing Stock, with the conditions in Regina Road receiving national press attention which led to widespread condemnation for the issues that were raised; • The project to refurbish Fairfield Halls led to a second PIR. Fairfield Halls was reopened in September 2019 and the PIR refers to arrangements in 2019/20 and earlier; and • Poor arrangements to support the preparation of accounts leading to long delays in responding to audit queries. We will share the proposed wording of this opinion once drafted. Our findings are also summarised in a separate report, which is published alongside this report on the Agenda.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We exercised our additional statutory powers and duties by issuing two separate Reports in the Public Interest on 23 October 2020 and on 26 January 2022 relating to arrangements in place during 2019/20. Please refer to page 36 of this report for detailed findings of powers exercised.

2. Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and those charged with governance (the Audit Committee).

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council and the group's business and is risk based, and in particular included:

- An evaluation of the group internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a full audit of Brick by Brick Croydon Ltd was required, which was completed by an separate accountancy firm, Ensors Chartered Accountants LLP; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Audit approach (continued)

We issued our initial audit plan and presented this to you on 9 March 2020. After that time we re-assessed our audit risks to reflect our response to the Covid-19 pandemic and the matters arising communicated in the Report in the Public Interest issued on 23 October 2020. We provided an Audit Plan Addendum which we communicated to management and those charged with governance on 2 December 2020. Since this date, updates have been provided to Audit and Governance Committee (formerly the General Purposes and Audit Committee (GPAC)) members on the progress of the 2019/20 External Audit. The additional changes made from our planned audit approach included the identification of the following additional significant risks:

- a risk relating to the impact on the statutory accounts as a result of the Covid-19 pandemic;
- a risk relating to the risk of fraud in revenue recognition attributable to income from fees and charges and other service income;
- a risk relating to the risk that the expenditure cycle includes fraudulent transactions and therefore operating expenditure, and associated creditor balances are incomplete;
- a risk relating to the accounting treatment for transactions relating to Emergency Temporary Accommodation (ETA) schemes;

We also identified an additional significant risk in respect of our Value for Money Conclusion, which was

- a risk relating to the governance of finance and group structures.

2. Audit approach

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our Audit Plan Addendum, which was however a change from those reported in our Audit Plan.

	Planning Stage		Final Accounts Stage		
	Group Amount (£000)	Council Amount (£)	Group Amount (£000)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	18,500	18,000	15,000	14,000	This benchmark is determined as a percentage of the Council's Gross Revenue Expenditure in year. Our initial planning identified 1.5% as an appropriate benchmark. Following the issues identified in the Report in the Public Interest, we revisited our assumptions and reduced the benchmark to 1.2%.
Performance materiality	12,950	12,600	9,000	8,400	Performance Materiality is based on a percentage of the overall materiality. Our initial planning identified 70% as an appropriate benchmark. Following the issues identified in the Report in the Public Interest, we revisited our assumptions and reduced the benchmark to 60%.
Trivial matters	900	900	700	700	Triviality is set at 5% of Headline Materiality and hence has fallen due to a reduction in this figure.
Materiality for Senior Officer Remuneration disclosures	100	100	100	100	We selected a value of £100,000 for this area as an error of this size would impact on the banding within which these Managers would sit, which we have determined is something that the users of the Accounts would be interested in.

2. Significant findings – going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern material uncertainty disclosures

As going concern considers the forward look of the Council's financial position, we have considered matters up to December 2024. 2020/21 was a challenging year due to the Covid-19 pandemic and the impact of this has included the administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines, staff absences due to sickness, self isolation and shielding with the need to free up capacity of teams in addition to normal responsibilities. The Council faced significant challenges during the period from 2020/21 and has to date issued three section 114 notices. The Council has been granted a Capitalisation Directive from the Department for Levelling Up, Housing and Communities (DLUHC) covering the financial gaps in the years from 2019/20 onwards.

Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

We therefore identified the requirement of disclosures relating to material uncertainties that may cast doubt on the group's ability to continue as a going concern in the financial statements as a risk requiring audit consideration and a key audit matter for the audit.

Going concern commentary	Auditor commentary
Management's assessment process	**Single Entity**
The authority's accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of service in the future is anticipated, as evidenced by the inclusion of financial provision for that service in published documents.	The Council issued a Section 114 Notice in November 2020 after identifying an in year £66m Budget Gap that they were unable to resolve without external support. At the end of 2019/20, the Council's draft financial statements reflected a General Fund Balance of £10.2m, which whilst it was consistent with the balance at the end of the prior year, was a very small balance given the level of spend incurred by the Council in a given year. The Council's financial position significantly deteriorated during 2019/20 and capitalisation directions of £126m have been required in 2019/20 after audit adjustments. In March 2021, the Council was awarded a capitalisation direction of £70 million for 2020/21 and £50 million for 2021/22. Capitalisation directions to be applied for the 2019/20 financial year have not yet been approved and are contingent on the Council reporting to the Department the final amounts identified for which it requires capitalisation for each year, with the agreement of the Council's external auditors and endorsed by the Improvement Assurance Panel. Further capitalisation directions are required in 2022/23 and are expected to be needed in 2023/24. This financial support will assist the Council in balancing it's budget in the short term and therefore provides some assurance over the going concern assumption adopted by management for a period of twelve months following the expected date of the auditor's report. However, as a result of the audit adjustments mentioned in this Report, the Council will finish 2019/20 with a negative General Fund position and will require further capitalisation funding to restore the General Fund position to breakeven following the completion of the 2019/20 audit process. Concern remains over the longer-term financial sustainability of the Council and its ability to balance its budget in the longer term without government aided support, but currently has a detailed cash flow forecast in place until March 2024. The Council is currently working on providing us with a forecast to December 2024, which is reliant on some asset sales and headroom within their PWLB borrowing limit which we are currently testing to confirm the reasonableness of the assumptions involved.

2. Significant findings – going concern (continued)

Going concern commentary	Auditor commentary
Management's assessment process The authority's accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of service in the future is anticipated, as evidenced by the inclusion of financial provision for that service in published documents.	**Group** The construction industry was significantly impacted by the Covid-19 pandemic with construction work having to be slowed down or stopped during the peak of the pandemic, shortages of labourers and increased costs in supplies and materials. These issues also impacted the subsidiary company Brick by Brick Croydon Ltd (Brick by Brick) which resulted in a loss for the company of **£803k** for the year ended 31 March 2020. The Council's weakening financial position has also meant that the financial support that it has previously provided to the subsidiary company is no longer available. Brick by Brick is currently in the process of being wound up and once final developments are completed is due to be fully closed by 2024. The auditor of Brick by Brick concluded that there is a material uncertainty over the going concern assumption adopted by management in relation to Brick by Brick which has been replicated within the group financial statements. Management has provided representations regarding their financial support for Brick by Brick.
Concluding comments	Based on the audit work performed over the going concern assumption adopted by management, we believe we will be able to obtain sufficient assurance over the going concern assumption adopted by management for the London Borough of Croydon single entity accounts as at 31 March 2020. We have however concluded a material uncertainty related to London Borough of Croydon group financial statements as a result of the uncertainty attached with the continued provision of services of the subsidiary company Brick by Brick Croydon Ltd. The group accounts will disclose a material uncertainty in respect of the going concern assumption which will be reflected as an emphasis of matter within our audit reports. Subject to the completion of the outstanding work mentioned earlier, we do not expect this uncertainty to extend to the single entity accounts but will provide a further update should this position change at all.

2. Significant audit risks

Risks identified in our Audit Plan/Addendum	Risk relates to	Auditor commentary
The revenue cycle includes fraudulent transactions **Income from fees and charges and other service income** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue, which we initially rebutted for both the Group and the Council Audits. However for both audits, we have now concluded that we are unable to rebut that risk for all revenue streams, due to the pressure on the overall financial position of the Group and Council. Our new assessment is that the greatest risk of material misstatement relates to fees and charges and other service income. This income stream is regarded as a material risk as there is increased judgement from management regarding recognition of revenue from fees and charges and other service income compared to income streams such as council tax and NNDR, HRA rental revenues and government grants and contributions. We have therefore identified the occurrence and accuracy of fees and charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. We have still rebutted this presumed risk for the other revenue streams of the Group and Council because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and • opportunities to manipulate revenue recognition are very limited.	Group and Council	We undertook the following work in relation to this risk: • evaluated the Group and Council's accounting policy for recognition of income from fees and charges and other services for appropriateness; • gained an understanding of the Group and Council's system for accounting for income from fees and charges and other services and evaluated the design of the associated controls; • agreed, on a sample basis, amounts recognised as income from fees and charges and other services in the financial statements to appropriate and sufficient audit evidence to gain assurance over the occurrence and accuracy of income. From the work performed to date, we have identified three issues relating to the Allowance for Credit Losses included within the draft Accounts. Firstly our review of the element of this Allowance relating to Housing Benefit Debtors identified that the calculation initially performed by the Council was incorrect, leading to an understatement of this element by **£1.5 million**. Secondly, during the course of the audit, the Council identified a considerable balance relating to outstanding Schools Utility Charges which were several years old and hence an Allowance should have been made against these items. It was identified that the additional Allowance required for these charges was **£4.5 million**. Further investigation also identified that the calculation of the outstanding Schools Utility Charges had omitted **£3.1 million** of invoices which were raised in 2019/20 but relates to costs incurred over previous years, some items going as far back as 2012. As these items were not accrued for in previous years, it means the closing Receivables balance at 31 March 2019 was understated by this balance, which meant that the provision made of **£4.5 million** was understated based on the age profile of this debt. Given the age profile of the debt the Council has written off this debt and provision as unrecoverable income which has been included as an audit adjustment as part of the 'Opening the Books' Exercise outlined below. As a result of issues identified in relation to understatement of receivable credit loss allowance, management performed a detailed review of this balance as part of their 'Opening the Books' Exercise which identified a **£28.9 million understatement** of the prior credit loss allowance, which has been updated in the revised accounts, and thus has seen a reduction in the General Fund balance equivalent to this balance. Thirdly, we identified that Management were initially of the view that no allowance for credit loss assessment was required for the loans issued to Brick by Brick Croydon Ltd, due to the fact that Brick by Brick is wholly owned by the Council and thus would prevent any loss. However an assessment is still needed despite this as it is still possible for the Company to incur losses which would reduce the amount owed back to the Council, which would generate an impairment in the Council's books. An assessment was subsequently performed which identified no impairment was needed for 2019/20 but will have an impact on the position in 2020/21. Our view is that not all of the loans were recoverable by the Council at 31 March 2020 and therefore an adjusting post balance sheet event has occurred that requires adjustment to the 2019/20 financial statements. We are currently awaiting management's response in order to conclude this matter. *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan/Addendum	Risk relates to	Auditor commentary
The revenue cycle includes fraudulent transactions **Income from fees and charges and other service income** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue, which we initially rebutted for both the Group and the Council Audits. However for both audits, we have now concluded that we are unable to rebut that risk for all revenue streams, due to the pressure on the overall financial position of the Group and Council. Our new assessment is that the greatest risk of material misstatement relates to fees and charges and other service income. This income stream is regarded as a material risk as there is increased judgement from management regarding recognition of revenue from fees and charges and other service income compared to income streams such as council tax and NNDR, HRA rental revenues and government grants and contributions. We have therefore identified the occurrence and accuracy of fees and charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. We have still rebutted this presumed risk for the other revenue streams of the Group and Council because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and • opportunities to manipulate revenue recognition are very limited.	Group and Council	*(continued from the previous page)* Our testing on income completeness identified an invoice raised in 2020/21 which related to services provided in 2019/20 and was above the Council's deminimus level for items to be accrued. We were informed that this item was not raised in a timely manner due to the pressures of the pandemic, but despite this the Council needs to ensure items like this are raised in a timely manner or accrued for to ensure inclusion within the Financial Statements. We extended our testing sample and did not identify any further instances of income not being accrued for in the correct financial year. We did however raise a similar issue in the prior year and thus this provides evidence that further work is need in this area – refer to Appendix B for further detail on this. No other issues have been identified to date. The Council is currently working to re-review sample testing transactions that had been classified as fails due to lack of evidence provided in order to reduce the impact of extrapolated errors over sample testing however, we are satisfied this is not a material issue. We will provide an update to Management and Those Charged with Governance if any further issues are identified from our remaining testing.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
The expenditure cycle includes fraudulent transactions	Group and Council	See below

Completeness of operating expenditure and associated creditor balances

Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition, needs to be considered as a potential significant risk, especially where organisations are required to meet financial targets.

Due to the pressure to deliver a balanced budget, the low level of general fund reserves held by the Council and in year budget overspends there is a risk over the completeness of your operating expenditure and associated creditor balances.

We have therefore identified the completeness of operating expenditure and associated creditor balances as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.

Auditor commentary

We undertook the following work in relation to this risk:

- Evaluated the design and implementation effectiveness of the accounts payable system.
- Verified that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General Ledger.
- Searched for unrecorded liabilities by performing substantive testing on a sample of invoices input on to the accounts payable system post period end.
- Searched for unrecorded liabilities by reviewing cash payments post period end.
- Performed substantive testing on a sample of expenditure included within the year to make sure it is correctly recorded.
- Performed substantive sample testing of liabilities recorded in the ledger to gain assurance that liabilities are accurate and not understated.
- We also performed testing on the expenditure which has been classified as Transformational Expenditure in year to confirm it meets the requirements to be classified in this way.

From the work performed to date, we have identified issues with transformation expenditure and the provision relating to a TUOE claim.

Transformation expenditure

From our testing of items classified as Transformational Expenditure by the Council we identified

- 5 items which did not meet the requirements to be treated in this manner, generating an actual error of **£258k**.

This generated an extrapolated error of **£7.071 million**. Where we undertake sample testing we extrapolate the error across the whole population.

As a result of these findings, and the 'Opening the Books' exercise undertaken by the Council, the accounting treatment of Croydon Affordable Housing LLP and Croydon Affordable Tenures LLP was re-reviewed by the external audit team based on further information being made available. This resulted in an updated view of the accounting treatment that should be applied based on the group structure. It was concluded that there is no capital receipt due from the Croydon Affordable Housing and Croydon Affordable Tenures group arrangement and therefore without a capital receipt the Council is unable to apply flexible use of capital receipts under Government Statutory Direction. Without a capital receipt from this arrangement, qualifying expenditure is unable to be capitalised and therefore all transformation expenditure since inception of the CAH and CAT LLP arrangements is required to be re-categorised as revenue expenditure.

The total of transformation expenditure funded by flexible capital receipts removed due to the removal of Croydon Affordable Housing and Croydon Affordable Tenures capital receipts is **£73 million**. A current year audit adjustment and prior period adjustment has been included in the revised accounts resulting in a reduction in the General Fund position for 2019/20.

We have raised a recommendation in Appendix A - **Recommendation 3 and 14** to ensure that controls around application of flexible capital receipts are tightened to prevent this from happening in the future.

(our commentary on this risk continues on the following page)

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
The expenditure cycle includes fraudulent transactions **Completeness of operating expenditure and associated creditor balances** Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition, needs to be considered as a potential significant risk, especially where organisations are required to meet financial targets. Due to the pressure to deliver a balanced budget, the low level of general fund reserves held by the Council and in year budget overspends there is a risk over the completeness of your operating expenditure and associated creditor balances. We have therefore identified the completeness of operating expenditure and associated creditor balances as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	Group and Council	*(continued from the previous page)* **Provision** The Council had made a provision in respect of a TUOE claim. The Council's legal advice was that a provision of **£1.8 million** should be made to cover the potential exposure, but the Council chose to only provide **£500k** due to the ongoing financial pressures. We considered the provision to be understated by **£1.3 million.** Management originally declined to amend for this error which our progress reports listed as an unadjusted misstatement. Subsequent to the accounts preparation, the claim was settled in December 2021 and the remaining unadjusted amount is below trivial and is therefore no longer requires reporting. For future accounts, it is important that the Council considers the legal advice in reaching its estimate. **Unrecorded Liabilities** No issues have been identified from our testing completed in relation to unrecorded liabilities however we did identify an error where expenditure had been overstated as no accrual had been made in 2018/19 relating to a school grant owed in 2018/19 but paid in 2019/20. We obtained an understanding that this was isolated to this type of school grant and concluded the extent of this error to be £711k.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	We undertook the following work in relation to this risk: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. During our journals testing, we identified two control issues: understanding of the purpose of the journal; and self-authorisation of journals. **Purpose of the journal** Our testing identified a small number of journals which had been posted by members of the finance team without them being able to explain the rationale for these journals. When challenged further, these members of staff stated these journals had been prepared by the Head of Finance and they had taken assurance from that individual that the journals were reasonable and appropriate, and thus had posted these to the Ledger on this basis. This is a fundamental control failing. All staff members should be able to explain the journals that they have posted during the course of the year, even if these have been prepared by other members of the finance team as may happen on some occasions. We have raised a recommendation in Appendix A - **Recommendation 2** to ensure that controls around journals are tightened to prevent this from happening in the future. In terms of the journals themselves, we traced each of the journals identified back to the appropriate supporting documentation, and were able to speak to individuals in the Council who had more knowledge on the areas in question to gain sufficient assurance that these journals were proper and appropriate, and were not indicative of fraud. **Self-authorisation of journals** Our testing also identified that several journals had been posted and authorised by the same individual. This is not in line with the Council's Policies which prohibit the self-authorisation of journals. Although our testing showed that none of these journals were indicative of fraud, there is a control weakness that could give rise to the posting of inappropriate journals where no automated control or separate review is in place to ensure that a separate individual posts the journal from the individual who initiated the journal. We have raised a

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	(continued from previous slide) recommendation for Management in Appendix A - **Recommendation 9** to prevent this from happening moving forward as well. As has been mentioned above, no issues were identified with any of the journals identified under each of the issues mentioned above and thus as it stands it gives us sufficient assurance these entries are not indicative of fraud, as we are required to consider here. No other issues have been identified to date, Additional journal testing is being undertaken following receipt of the revised financial statements in August 2023 where journals have been used to make material adjustments. We will provide an update on the outcome of our remaining testing.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.884 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	We undertook the following work in relation to this risk: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed with the valuer the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We also engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation; • tested a sample of revaluations made during the year to see if they had been input correctly into the Authority's asset register; • evaluated 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 at year end. Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. You have included a disclosure within your accounts to reflect the material uncertainty within Note 4. We will reflect your disclosure within an Emphasis of Matter paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty as at 31 March 2020. Our testing in this area also identified several control deficiencies around the Council's processes in this area, which were as follows: • When testing the Council's asset valuations, we identified that some assets had not been classified on the Asset Register under the correct valuation basis (DRC, EUV, FV). There has been no material impact on the closing valuation of these assets for 2019/20 as a result of this deficiency. However, there is a risk that where material assets are not classified correctly for valuations purposes this could cause a material error within the financial statements as they could be valued incorrectly in future years. We have raised a recommendation in Appendix A - **Recommendation 11** to ensure that controls around asset classifications are strengthened. *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.884 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	*(continued from the previous page)* • During our testing over valuations of Investment Properties and Land and Buildings, we challenged the external valuers (Wilks, Head and Eve) over the classification of assets against the definitions within the Code. They confirmed that this is not a test that they perform directly based on instruction received from Croydon. There is a risk that these types of assets are incorrectly classified where reviews are not performed over classification of assets which thus could lead an incorrect asset valuation. In response to this risk we obtained a list of EUV assets that are held under lease based on the valuation report. We obtained an understanding of EUV assets and checked our understanding against the definition of an investment property asset per the Code of Audit Practice. We concluded from our work that the EUV assets identified were correctly categorised as EUV and not investment property assets however, we have raised a recommendation that management should perform a check in conjunction with their valuer that assets are categorised appropriately. We have raised a recommendation in Appendix A- **Recommendation 13** to ensure that controls around investment property asset classifications are strengthened. • We reviewed management's assessment of those assets which had not been formally revalued in-year and noted deficiencies within management's assessment, which included an incorrect adjustment factor calculation, and it was difficult for the audit team to reperform management's calculation due to poor links between the working paper and the Fixed Asset Register/Valuer's Report. On challenge, management explained that this assessment had been rolled forward from prior years and thus the methodology is outdated. There is a risk that assets that have not been revalued have a materially different carrying value at the balance sheet date and are not picked up by management through their assessment performed. In response to this finding we performed a recalculation of assets not revalued in year and compared this against management's calculation, this resulted in a trivial difference of £558k, we therefore have obtained sufficient assurance over the calculation used to understand the impact of assets not revalued in year. We have raised a recommendation in Appendix A- **Recommendation 12** to ensure that controls around assets not revalued in year are strengthened. • In the prior year we also identified issues with the data passed from the Council to the Valuer, and similar issues have been found in 2019/20, where updated information was not always made available to the valuer in a timely manner. We performed a completeness check of data sent to the valuer which identified some floor areas did not agree back to data used by the valuer and some properties held on an EUV and FV basis did not tie back to lease agreements and tenancy schedules held by the council. We extrapolated the errors identified and concluded an extrapolated error of £1.4m of potentially understatement of valuation of assets based on discrepancies in data being supplied to the valuer. Thus as per Appendix B we will roll forward the recommendation raised in the prior year to reflect there is more for the Council to do in this space to resolve this issue. Whilst we have been able to obtain sufficient assurance over the asset valuations included within the Financial Statements, all of the issues raised led to additional audit effort above expected levels. We have raised recommendations for management in respect of each of these areas, which have been documented in Appendix A.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£653 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	We undertook the following work in relation to this risk: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to your management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. To date, the only issue identified in respect of this area is the material uncertainty which is attached to the Pension Fund's investments, where the Fund Managers have issued a material uncertainty over the valuation of these assets due to the impact of pandemic at 31 March 2020. Whilst a material uncertainty has been included in the Pension Fund Accounts, as these assets relate to the Council's element of the Pension Fund, this uncertainty is carried forward to the Main Accounts as well, and will be covered via the 'Emphasis of Matter' Paragraph mentioned earlier within the report. Our work in this area is complete with the exception of obtaining relevant assurance letters from the completion of the audit of the Council's Pension Fund financial statements. Should any further issues be identified we will provide an update to Management and Those Charged with Governance on the issues identified.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Valuation of Investment Properties The Authority revalues its Investment Properties on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£99 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter	Group and Council	We undertook the following work in relation to this risk: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert ; • written to the valuer to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation; • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; and • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. You have included a disclosure within your accounts to reflect the material uncertainty within Note 4. We will reflect your disclosure within an Emphasis of Matter paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. The Council's investment in Croydon Park Hotel is held as an Investment Property in these accounts. Croydon Park Hotel was sold by the Council in 2021 as it fell into administration. The hotel was valued at £30m as at 31 March 2020 and later valued at £17.4m in March 2021 as a result of the Hotel falling into administration in June 2020. The hotel was later sold for £24m in December 2021. We are satisfied from work performed that the fair value as at 31 March 2020 is not materially misstated and no adjusting post balance sheet event is required. No material issues have been identified from our work performed.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Transfer of Properties from Council to Pension Fund During the course of the year, the Authority has transferred 346 houses into the Pension Fund, between November 2057 and April 2059. As a result of this pledge, the Authority is seeking a reduced contribution rate over the course of the 40 years, which would be set by the Authority's Actuary, Hymans Robertson LLP. We therefore identified the completeness and accuracy of the information around the transfer of properties as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	Despite management informing us that this transaction had taken place, our work identified that the transaction had not taken place during the course of the 2019/20 or 2020/21 financial years. In May 2021, the scheme was formally withdrawn at the Pension Fund Committee held on 25 May 2021. There is no impact on the 2019/20 Financial Statements and no further work was needed on this significant risk area.
Incomplete or inaccurate financial information transferred to the new General Ledger In April 2020, the Authority implemented a new cloud based general ledger system for the 2019/20 financial year. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Group and Council	We undertook the following work in relation to this risk: • completed an information technology (IT) environment review by our IT audit specialists to document, evaluate and test the IT controls operating within the new general ledger system • mapped the closing balances from the 2018/19 general ledger to the opening balance position in the new ledger for 2019/20 to ensure accuracy and completeness of the financial information We have identified a number of control issues in relation to the IT environment of the new general ledger system, please refer to Appendix A for further details. These issues were reported to the General Purposes and Audit Committee held on 14 January 2021, and a further update and discussion with management was held at the Committee held on 10 June 2021. A summary of our findings can be found in Appendix A - Action Plan - IT Audit. No further material issues have been identified from the work performed in this area.

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Accounting for transactions relating to the Emergency Temporary Accommodation (ETA) Schemes In previous years we have considered the Council's Emergency Temporary Accommodation (ETA) Schemes, focusing on both how these schemes have been financed by the Council, along with how they have been accounted for within the Council's Accounts. ETA1 was reviewed in 2017/18, and an issue was identified relating to the charging of a Reverse Lease Premium, which has been reported in our previous Audit Findings Reports. Since then the Council expanded the ETA Schemes with potentially different sources of finance in 2019/20. We also noted a detailed review was performed by pwc who flagged a number of areas for the Council to revisit as part of wider review in this area. We will undertake further work following recommendations made by pwc to ensure items are accounted for correctly. We therefore identified the accounting for the ETA schemes as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	We have performed the following work in respect of this risk: • Evaluated the design and implementation of the Council's processes and controls in this area; • Reviewed the recommendations raised by the PwC Report where these impact the balances included within the Accounts and challenged Management on the appropriateness of these judgements. • Reviewed the accounting for these schemes within the 2019-20 Accounts, and considered the involvement of technical specialists to gain assurance over the appropriateness of the accounting. • Tested the transactions recorded in the 2019-20 Accounts to confirm compliance with the CIPFA Code of Practice for Local Authority Accounting. Following issues identified within the cash and bank reconciliation, we identified that the companies set up to operate the ETA schemes did not have their own separate bank account or their own financial ledger instead both companies (Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP) used the Council's bank account and financial ledger. This raised a question over the control of the companies and hence the accounting treatment. These questions were first raised in January 2021. In following up the queries, we reached a view in August 2021 that we did not agree with the Council's accounting treatment for these schemes. The Council engaged PWC to review the accounting treatment and we reviewed the resulting report in January 2022 which identified new information that had not been made available to the auditor in 2017/18 or 2018/19. During 2022 we continued to discuss and challenge management over the accounting treatment and the Council secured the support of another financial reporting expert. In February 2023, we reached a shared understanding of the arrangements and consequent accounting treatment. The Council then restated the draft financial statements to reflect the revised accounting treatment. The schemes (ETA1 and ETA2) had been accounted for as a number of separate transactions and the financial statements reflected that approach. However some of the new information identified showed that the individual transactions were inherently interlinked and therefore under the requirements of accounting standard SIC27 the schemes should be shown as a series of linked transactions rather than as separate transactions. Under the original approach the assets were 'sold' to the companies generating a capital receipt. The additional work identified that the assets remained the property of the Council, both from a freehold and a leasehold perspective. Without a disposal, no capital receipts were generated. *(continued on next page)*

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Accounting for transactions relating to the Emergency Temporary Accommodation (ETA) Schemes In previous years we have considered the Council's Emergency Temporary Accommodation (ETA) Schemes, focusing on both how these schemes have been financed by the Council, along with how they have been accounted for within the Council's Accounts. ETA1 was reviewed in 2017/18, and an issue was identified relating to the charging of a Reverse Lease Premium, which has been reported in our previous Audit Findings Reports. Since then the Council expanded the ETA Schemes with potentially different sources of finance in 2019/20. We also noted a detailed review was performed by pwc who flagged a number of areas for the Council to revisit as part of wider review in this area. We will undertake further work following recommendations made by pwc to ensure items are accounted for correctly. We therefore identified the accounting for the ETA schemes as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	We held a significant number of discussions with management over this issue and management has revised their judgement in accounting for these transactions and the accounts reflect the substance of the transaction rather than the legal form of the transaction. Note 43 of the revised financial statements sets out the revised judgements of management in relation to the accounting of Croydon Affordable Housing (CAH) LLP (known as ETA1) and Croydon Affordable Tenures (CAT) LLP (known as ETA2). The changes in judgement applied by management has resulted in a number of changes to the accounts. The key element relates to the lack of capital receipt. The previous approach appeared to generate a capital receipt which management applied the Flexible Use of Capital Receipts for Transformation regulations which allowed capital receipts to be applied to revenue expenditure for transformation. The Council had applied £73 million through these regulations however the change in accounting treatment which reflects that no capital receipt was generated means that the £73 million is direct revenue expenditure by the Council further worsening the General Fund balance and a further Capitalisation Direction has been obtained to reflect this accounting change. These changes have been reflected as an audit adjustment to the 2019/20 financial statements with restatement for prior years. We have raised a recommendation in Appendix A - **Recommendation 14** to ensure that controls around application of flexible capital receipts are tightened to prevent this from happening in the future.

2. Significant audit risks

Risks identified in our Audit Plan/Addendum	Risk relates to	Auditor commentary
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	We undertook the following work in relation to this risk: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. A reduction was made to materiality levels previously reported at planning (see page 6 of this report for changes made to materiality levels). The draft financial statements were provided on 16 October 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. • engaged the use of an auditor expert to gain assurance over asset valuations. Due to the potential impact that Covid-19 has on the value of your land and buildings and council dwellings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. An identical uncertainty has been included within the report for the Council's Investment Properties as well. You have included a disclosure within your accounts to reflect the material uncertainty within note 4. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. A similar issue has been identified in respect of the illiquid assets held by the Pension Fund, where the Fund Managers have issued a material uncertainty over the valuation of these assets due to the impact of pandemic at 31 March 2020. Whilst a material uncertainty has been included in the Pension Fund Accounts, as these assets relate to the Council's element of the Pension Fund, this uncertainty is carried forward to the Main Accounts as well, and will be covered via the 'Emphasis of Matter' Paragraph mentioned above. The emphasis of matter in relation to uncertainties of valuations on assets (land, buildings, investment properties and pension fund) is consistent to other local authorities in 2019/20.

2. Other audit risks

Risks identified in our Audit Plan	Auditor commentary
IFRS 16 implementation has been delayed by two years Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	We discussed the implementation of IFRS16 with the Council who have confirmed that whilst considerable progress had been made, this has been put on hold following the deferral and the Covid-19 Pandemic. CIPFA has continued to defer implementation of this standard until 1 April 2024.

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2. Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Brick by Brick Croydon Limited	Ensors Chartered Accountants LLP	A qualified disclaimer of opinion of Brick by Brick Croydon Limited was issued by Ensors Chartered Accountants LLP on 31 March 2021. A number of issues were identified by Ensors which led to the conclusion of the disclaimer opinion including: • Limited evidence available to support the accuracy and existence of the loans balance included on the balance sheet. This included evidence to support the status of funds advanced to Brick by Brick by the parent company, the accuracy of relevant interest charges or repayment terms relating to the loan advances. Refer to Appendix A - **Recommendation 6** for control recommendation raised. • Material uncertainty over the going concern status of Brick by Brick including limited evidence available to support the going concern assumption adopted by management. • Material errors were identified in respect of the timing of the recognition of construction costs as well as the accuracy of both the recorded value of creditors and work in progress recorded in the financial statements. These errors were adjusted for in the final set of financial statements however control weaknesses were identified around the reconciliation of project costing records and financial accounting records which led to limited audit evidence to support whether ongoing construction sites are likely to be profitably concluded.	As a result of the qualified disclaimer of opinion on the component provided by the component auditor, the group auditor performed the following procedures: • Discussed with the component auditor to obtain an understanding of the issues identified which led to a qualified disclaimer opinion; • Assessed the material balances/transactions and significant risk areas determined within our risk assessment and planning and reassessed the audit approach required in order to gain assurance over the material balances/transactions and significant risk areas pertaining to the group financial statements; and • Reviewed the component auditor audit file and working papers to obtain assurance over the control environment of the component entity and material balances/transactions and significant risk areas included in the group financial statements. Following the completion of the above, and the consideration of the issues raised from the audit of Brick by Brick Croydon Limited, there is an impact on our group audit opinion which will require a modified group opinion to reflect pervasive nature of the issues identified.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Dedicated Schools Grant (DSG) The Council had a cumulative overspend on the DSG of £14.524 million as at 31 March 2020. The balance was £9.193 million as at 31 March 2019 and this was treated as a debtor in the 2018/19 financial statements. In 2019/20 the Council changed its accounting treatment from a debtor to a negative earmarked reserve. SI 2020/1212 (Nov 2020) amended the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to require that where a local authority had a schools' budget deficit at 1 April 2020 or where a deficit now arises, the deficit must not be a charge to a revenue account and must be recorded in an account dedicated to recording the deficit.	In 2018/19 the Council recorded the overspend as a debtor, we considered this accounting treatment to be incorrect and recorded this as an unadjusted misstatement in that year. As it was not material you chose not to adjust for the error. In 2019/20 the Council revised its accounting treatment to move the overspend from debtors to a negative earmarked reserve.	The Council has now included a prior period restatement of 2018/19 to recognise an earmarked reserve for the dedicated schools grant overspend. We are satisfied this revised treatment by the Council meets the regulations. See page 54 in this report for further details of adjustment made.
Transformation Expenditure We noted from our Report in the Public Interest that the Council had invested £73 million of transformation expenditure in the previous three years yet the Council continue to experience overspends in areas heavily invested with transformation monies including both Children and Adults' Social Care.	The Council capitalised £29 million of transformation expenditure in 2019/20. The audit team performed substantive testing on the capitalised expenditure to gain assurance that expenditure capitalised was in accordance with the statutory guidance and that benefits were being realised from investment made.	As noted in the section on ETA schemes, no capital receipt was generated and all these transactions have now been corrected. It is worth noting we did undertake testing of sample of expenditure items charged to transformation and identified 5 out of 20 samples that were incorrectly classified in that they did not meet the criteria to be capitalised in line with statutory guidance. This generated an actual error of **£258k**, which resulted in an extrapolated error of **£7.071 million** and would result in a charge against the general fund. The total of transformation expenditure funded by flexible capital receipts removed due to the removal of Croydon Affordable Housing and Croydon Affordable Tenures capital receipts is £73 million. It is important that the Council reflects on the evidence it maintains to demonstrate that it has met the requirements of specific schemes going forward. See page 55 in this report for further details of adjustments made in respect of the errors identified. We have raised a recommendation in Appendix A - **Recommendation 3 and 14** to ensure that controls around application of flexible capital receipts are tightened to prevent this from happening in the future.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Group Structure The Council has a number of companies that it has set up as part of its large group structure. During our review of the group structure we noted a number of companies that had been set up that were not disclosed within the Statement of Accounts and we also identified that one company that had been struck off by Companies House, and thus all assets previously held by the company had been transferred to the Crown which we noted in our Report in the Public Interest.	• As part of our review of all companies that the Council holds an interest in we also noted that a company London Borough of Croydon Holdings Ltd (100% shares held by the Council) had been struck off on 3 December 2019 and was not reinstated until 11 February 2021. This meant that as at 31 March 2020, the Council did not hold any assets associated with the company. • The Council also established new companies during the 2019/20 financial year which were not identified by the Council and were therefore not disclosed within the group interests note to the accounts.	• During the course of the audit, the Council successfully applied for London Borough of Croydon Holdings Ltd to be reinstated at Companies House and all assets which were previously held by this company have been returned to it by the Crown. • There is a risk that companies are set up with minimal oversight and therefore intended benefits or interests held by the Council are lost due to lack of governance or oversight. See Appendix A - **Recommendation 4** of this report for further details of control findings in relation to group companies. We understand the Council has now put strengthened arrangements in place to help manage the risks in this area, albeit the Council should continue to review the Companies which it is operating and close down those which are not providing any benefits to the Council.
Inaccurate FTE data From our testing performed over payroll expenditure we identified that Full Time Equivalent (FTE) Reports were inaccurate.	FTE reports are used to understand the workforce of the council and can be used to inform decision making. We identified FTE report data was inaccurate and therefore there is a risk that data used for management purposes contains incorrect information and inappropriate decisions could be made on inaccurate information.	• We were required to amend our audit approach on identification that FTE data provided was inaccurate. This meant that we could not provide reliance on FTE data for our audit purposes and amended our approach to a fully substantive approach to test payroll expenditure. We did not identify any material errors within our substantive testing of payroll expenditure however, we have raised a recommendation in Appendix A - **Recommendation 10** to ensure that controls around FTE data are strengthened.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Minimum Revenue Provision (MRP) In 2019/20 the Council amended its Minimum Revenue Provision policy so that borrowing relating to investment properties and loans to Brick by Brick would not incur a minimum revenue provision charge against them to repay borrowing costs on the basis that the MRP charge was off-set by income received from investment properties and interest received from loans given to third parties.	Under Regulation 27 of the 2003 Regulations, local authorities are required to charge MRP to their revenue account in each financial year. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current Regulation 28 of the 2003 Regulations, which gives local authorities flexibility in how they calculate MRP, providing the calculation is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to this guidance.	Based on our review of the revised minimum revenue provision policy, we concluded that the changes made did not provide a prudent charge of MRP as required by the statutory guidance. We did not agree with management's view that MRP should not be charged on investment properties, nor did we agree with management's view not to charge MRP on the loans issued to Brick by Brick Croydon Ltd. The Council is of the view that as they were planning to receive interest back from Brick by Brick, which was going to fund the repayment of the debt initially taken out by the Council, no MRP charge was required. Based on our audit findings management re-reviewed the MRP charge and have now included **£141 million** of Brick by Brick loans into its MRP calculation. This has resulted in management recognising a further **£6.7 million** for 2019/20 required to increase the MRP charge. This adjustment has been reflected in the revised 2019/20 accounts and reduced the General Fund and Earmarked Reserves position. **£3.164m** of this increase in MRP will be funded through earmarked reserves, therefore **£3.544m** is the total general fund impact of the additional charge. We have reviewed the charge of MRP made in the prior year and estimated that the 2018/19 charge was understated by **£2.3 million**. This is not material and therefore no prior period adjustment is required. We have raised a recommendation in Appendix A - **Recommendation 5** to ensure that controls around the calculation of MRP is in line with regulations.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Prudential Indicators The capital financing and expenditure note has incorrectly excluded PFI capital expenditure and expenditure and financing on property development loans therefore leading to a material restatement in the capital expenditure and financing note for the prior year comparator.	During the preparation of the draft 2019/20 financial statements the Council noted the omission of PFI expenditure and property development loans from the capital expenditure and financing note. This was also excluded from the 2018/19 note which led to an incorrect opening CFR position in 2019/20. The Council restated the disclosure note for 2018/19.	The Council corrected both the 2019/20 and restated the disclosure note for 2018/19 prior to providing the draft financial statements. We have reviewed the notes for 2019/20 and restated 2018/19 disclosures note and both are in line with the CIPFA Code guidance. There is no impact on the primary statements and affects the disclosure note only.
Fairfield Halls As part of our Report in the Public Interest on the Fairfield Halls refurbishment we identified that the asset remained in the Council's ownership throughout the refurbishment. The expenditure on the refurbishment has been recorded in the Council's draft financial statements as a long term debtor reflecting the loans to Brick by Brick who undertook the management of the refurbishment and accounted for the expenditure within Brick by Brick's accounts.	In line with accounting standards any capital expenditure against an asset should be capitalised on the balance sheet of the entity which owns that particular asset. In the draft financial statements the Council recorded the loans to Brick by Brick which funded the refurbishment of Fairfield Halls as long term debtors and the asset remained in the Council's Property, Plant and Equipment balance. Brick by Brick recorded the refurbishment expenditure in its accounts. The Group accounts consolidates this difference. Following discussion with the auditors, management proposed a revised treatment in a paper to Cabinet on 17 May 2021.	As the Council retained ownership of the asset, the expenditure in relation to the asset should be recorded in the Council's financial statements rather than in Brick by Brick's accounts. As a result • £62 million of capital additions have been added to the Council's accounts (£40m relates to years up to 2018/19 and has been accounted for as a prior period adjustment) • £62 million of long term debtors have been reversed • £9 million of interest included within debtors has been written back • The Capital Financing Note has been amended to reflect the changes • MRP in future years will now include a charge relating to the refurbishment expenditure See page 51 in this report for further details of adjustments made in respect of the errors identified.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view

Brick by Brick Croydon Ltd
During our testing of debtors we noted a number of debtors where the Council had loaned money to its wholly owned subsidiary company Brick by Brick Croydon Limited. A number of the debtors recognised were in relation to loans where the repayment date was due by 31 March 2020 and had not yet been repaid.
	• £221 million of long term and short term debtors recognised on the Council's balance sheet related to loans that were overdue for repayment by Brick by Brick Croydon Ltd. IFRS 9 requires an organisation to consider credit loss assessment of financial assets. The Council had not performed a credit loss assessment of financial assets as at 31 March 2020.
	• In previous years the audit engagement team were able to perform a debtors circularisation to confirm the year end debtors balance in relation to loans provided to Brick by Brick by the council. As at 31 March 2020 we were unable to obtain a debtors circularisation response and therefore performed a sample test of debtors. In obtaining the audit evidence we identified a number of
	    • loans that were past their repayment date and had not yet been paid
	    • loan agreements that had not been signed by both the funding and receiving body or
	    • in some cases no evidence of loan agreements for the funds advanced to the subsidiary company.
	We have raised a recommendation in Appendix A- **Recommendation 6** to ensure that controls around the oversight of legal documents is strengthened.
		IFRS 9 requires the Council to perform a credit loss assessment of financial assets. This has not yet been completed.
		In addition, the loan covenants require Brick by Brick to provide audited accounts within 90 days of the financial year end. Audited accounts were provided 365 days after the year end and create a technical breach of the loan covenants meaning all loans are repayable on demand. In previous years the Council issued a waiver to cover this breach, however the waiver was not issued as at 31 March 2020. As a result all loans with Brick by Brick were repayable on demand and will now be disclosed as Short Term Debtors instead of the previous Long Term Debtors classification in the Accounts.
		Since this audit finding was presented to management, the council have consolidated all loans to Brick by Brick Croydon into one loan agreement, totalling £141 million. Croydon has built this into its MRP calculation however no credit loss assessment has yet been performed. We are currently in discussions with management to resolve this matter.
		In addition we consider the lack of monitoring of loan repayment dates and maintenance of signed loan agreements to be a control weakness. There is a risk of oversight and financial mismanagement where there is a lack of legally binding documents in respect of loans made to other organisations which could put the Council at risk of not being able to recover the loaned monies. This risk was earlier communicated through our Public Interest Report issued in October 2020.
		Please refer to Appendix A of this report for further details of control findings in relation to Brick by Brick Croydon Ltd.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Cash and Cash Equivalents During our testing of cash and cash equivalents we identified that no regular bank reconciliations had been undertaken by the Council. We also identified that LEP cash held by the council had not been separately disclosed within the statement of accounts as required by the CIPFA Code of Practice.	• As part of our audit we request the year end bank reconciliation. The 31 March 2020 bank reconciliation was provided by the Chief Accountant who left the Council in July 2020. During the audit it became clear that no year end bank reconciliation had been completed which is a serious control weakness. In following up the lack of year end bank reconciliation we identified that Internal Audit provided a draft report to the Executive Director of Resources in July 2020 setting out the absence of bank reconciliations. None of the recipients had responded to Internal Audit until we escalated the matter to the Chief Executive In February 2021. • We identified that the Council holds cash on behalf of the Local Enterprise Partnership (LEP). As this is not cash that is controlled by the council the council should not be recognising this cash as an asset in it's Balance Sheet.	For an organisation the size of the Council, monthly bank reconciliations should be prepared and formally reviewed. We would expect more regular reconciliations to be completed as part of routine financial management. Without a fundamental key control ensuring that the bank balance reconciles to the Council's own accounting records there is a risk that cash can be misappropriated or errors made that are not identified promptly. This is a serious control weaknesses and the Council should ensure that routine bank reconciliations are carried out throughout the financial year and formally reviewed by a senior finance officer. In addition, it is unacceptable that serious Internal Audit findings were not actioned between July 2020 and February 2021 when we escalated the matter. Internal Audit is an important part of the Council's governance process and the Council needs an appropriate mechanism to respond to Internal Audit promptly and effectively Please refer to Appendix A - **Recommendations 1 and 7**. of this report for further details of control findings in relation to Cash and Cash Equivalents. • We are currently reviewing the prior period adjustment made by management to correct the treatment of LEP cash. Our work is still in progress to review the adjustments made in this area and we will report any further details of error's identified to management and TCWG.

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2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing - £972 million	The Council owns 13,465 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged an external valuer, Wilks Head and Eve, to complete the valuation of these properties. The year end valuation of Council Housing was **£972 million**, a net increase of **£18 million** from 2018/19 (**£954 million**).	From the work performed in this area, we gained sufficient assurance on the valuation of the Council's Housing Stock included within the draft financial statements. The valuer prepared the valuation using the Stock Valuation Guidance issued by MHCLG, and ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) and the value was disclosed correctly within the draft financial statements. The valuer performed the valuation as at 31 March 2020 which ensured all events up to year end have been appropriately reflected within the valuations undertaken by Wilks Head and Eve, the valuer. We reviewed and challenged the valuer's assessment, and gained sufficient assurance over the assumptions used by the valuer in respect of this period. We used an Auditor's Expert to review of the assumptions and approach used by the valuer and the Auditor's Expert confirmed the reasonableness and appropriateness of the approach followed by the Council. Due to the potential impact that Covid-19 has on the value of your land and buildings and council dwellings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. You have included a disclosure within your accounts to reflect the material uncertainty within note 4. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.	● Green

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Assessment

- ● - Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● - Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● - Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● - Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £804 million	Other land and buildings comprises **£630 million** of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (**£174 million**) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged an external valuer, Wilks Head and Eve, to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 89% of total assets were revalued during 2019/20. The valuation of properties valued by the valuer has resulted in a net increase of **£32 million**. Management considered the year end value of assets which were not valued at 31 March 2020 to determine whether there had been a material change in the total value of these properties. Management's assessment of assets not revalued did not identify a material change to the value of the properties. The total year end valuation of Other Land and Buildings was **£804 million**, a net increase of **£38 million** from 2018/19 (**£766 million**). In line with RICS guidance, the Council's Valuer disclosed a material uncertainty in the valuation of the Council's Land and Buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.	• From the work performed in this area, we gained sufficient assurance over the valuation of the Council's Other Land and Buildings included within the Accounts. • The valuer agreed clear terms of reference for this work with the Council in advance of the work being performed, including agreeing the assumptions that were going to be applied to this work. • We reviewed the valuer's assumptions and with our Auditor's Expert confirmed that the assumptions were reasonable and appropriate given the nature of the assets held by the Council. • We also considered the valuer's work on those assets not valued as at the 31 March 2020 to confirm that their value at that date was not materially different to their carrying value included within the draft financial statements. Again we able to gain sufficient assurance over the assessment made by the valuer in this area. • As mentioned earlier in the Report, the Valuer has included a material uncertainty on the valuation certificate, which has been correctly reflected within the Accounts, within Note 4. We will reflect this matter as an Emphasis of Matter in our Audit report.	Green

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Assessment

- Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £473 million	The Council's total net pension liability at 31 March 2020 is £473 million (PY £653 million), comprising the London Borough of Croydon Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £180m net actuarial gain during 2019/20.	• The Council used Hymans Robertson as their Actuary for a number of years, and thus we are satisfied with their competence and capability to provide the valuations required by the Council in respect of the net pension fund liability as at the 31 March 2020. Further assurance over this is provided by the work performed by our Auditor's Expert, PwC, who review the work undertaken by all of the Actuaries involved within the LGPS Scheme. They found no significant issues with the work performed by Hymans Robertson which thus provides us with sufficient assurance over the work of the Actuary. • We reviewed the assumptions made by the actuary when calculating the IAS26 costs included within the Accounts to confirm their reasonableness. We again made use of PwC, to obtain assurance over the reasonableness of the assumptions used. A summary of the work performed can be seen in the table below:	● Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.30%	2.30%	●
Pension increase rate	1.90%	1.80%-2.00%	●
Salary growth	1.90%	1.80%-2.90%	●
Life expectancy – Males currently aged 45 / 65	22.5 21.9	21.6-23.3 20.5-22.2	●
Life expectancy – Females currently aged 45 / 65	25.3 23.9	24.6-26.3 22.9-24.3	●

• Based on the table above, we have gained sufficient assurance over the assumptions applied by Hymans Robertson to value the Council's Pension Fund Liability as at the 31 March 2020, and the resulting figures included within the draft financial statements.

Assessment

- ● - Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● - Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● - Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● - Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	As mentioned elsewhere within the Report, we identified issues over the disclosure of the development spend incurred in relation to Fairfield Halls, which was initially incorrectly recorded in the accounts of Brick by Brick Croydon Ltd, when this spend should have been recorded in the Council's Accounts given the asset never formally transferred to Brick by Brick. This has been amended in the updated Accounts and a disclosure has been added to the Accounts to explain clearly the changes which have taken place as a result of this adjustment. No other issues have been identified in respect of the related parties or related party transactions recorded within the Accounts.
Matters in relation to laws and regulations	As reported within the Report in the Public Interest, the Council had to issue a Section 114 Notice in November 2020 due to the identification of a £66 million budget shortfall in 2020-21. As a result of this, the Council has been granted a Capitalisation Direction by MHCLG, which will cover sums over the next three financial years. Our Value for Money Work in respect of the redevelopment of Fairfield Halls and the related transactions led to a Report in Public Interest in January 2022. The Council subsequently engaged a forensic expert, Kroll, and the resulting report has been referred by the Council to the Police to consider whether there is a case to answer under the Misuse of Public Office. We understand that the case is being considered and we intend to issue a modification to the audit report to reflect the matters arising.
Written representations	A letter of representation will be requested from the Council, including specific representations in respect of the Group, which will be shared with Management and the Audit and Governance Committee once all of the remaining work has been completed.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.
Disclosures	Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. A number of these changes have arisen due to the impact of the two Reports in the Public Interest and ensuring this is correctly reflected in the 2019/20 financial statements where required. Further detail is provided within the Misclassifications and Disclosure Changes pages, which are included later in the Report.

2. Other matters for communication

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.

Audit evidence and explanations/significant difficulties	This has been a challenging audit for both the finance and audit teams. The initial audit was prolonged to assist the finance team manage the competing pressures of a revised budget in response to the section 114 notice and the request for a Capitalisation Direction at the same time as responding to auditors. Given the length of time the audit has taken there has been significant turnover in key personnel at the Council during the audit period, including four section 151 officers. With significant turnover, corporate memory becomes difficult to retain and going forwards the Council needs to continue to invest in the finance team to help with consistency and resilience. A number of the issues identified in-year have required the new finance team to revisit figures and judgements which were made in previous years, for which there is a lack of corporate memory and hence items have often had to be revisited from scratch to agree a way forward. This has indicated that a more robust mechanism is needed to maintain records that can be easily followed by successors where there is a change in the finance team. We have raised a recommendation in Appendix A - **Recommendation 8** to ensure appropriate succession planning is in place for the finance team. Despite the challenges and the length of time, we acknowledge the cooperation and engagement of the finance team.

2. Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. From the work performed inconsistencies were identified which have now been rectified by management. Most of these related to the issues included within the Report in the Public Interest, where we asked Management to update the Annual Governance Statement and Narrative Report to ensure that matters which related to 2019/20 were appropriately reflected. Our work on the revised narrative information is currently in progress post amendments made by the Council.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement (AGS) does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties As mentioned elsewhere in the Report, we have issued a Report in the Public Interest relating to the financial challenges that the Council has faced and is continuing to face – refer to Section 4 of the Report for further information. Due to the issues identified in the Report in the Public Interest, we asked the Council to update the Annual Governance Statement to reflect the issues identified which related to 2019-20. The Council has subsequently prepared an updated Statement to reflect these points where appropriate. Our work on the revised AGS is currently in progress post amendments made by the Council.
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 the Council exceeds the specified group reporting threshold of £500 million, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work has not yet been started due to the ongoing final accounts audit. The NAO have clarified that group audit procedures and assurance statements submissions are no longer required for outstanding 2019/20 local government audits and therefore no further work will be required in this area.
Certification of the closure of the audit	We will be unable to certify the closure of the 2019/20 Audit of the London Borough of Croydon until we have completed our review of the Pension Fund Annual Report. We expect to complete this concurrently with the audit.

3. Value for Money

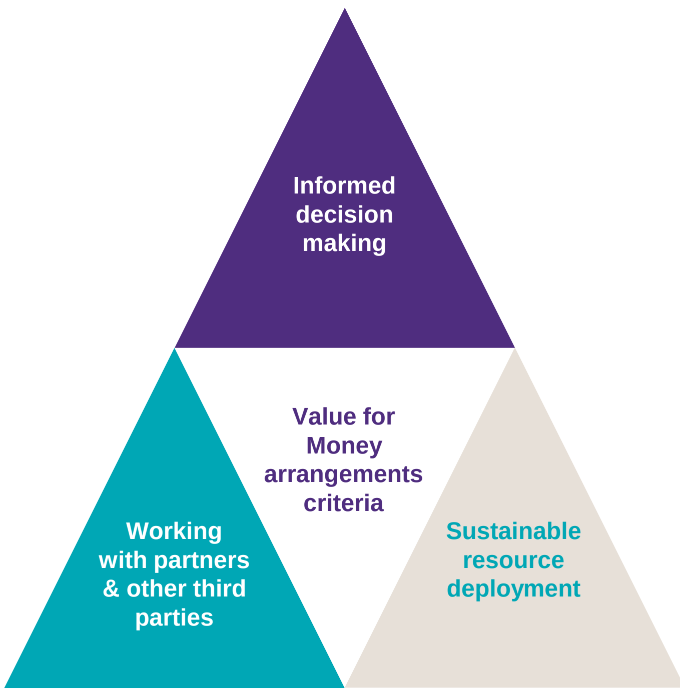
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its 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 at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

In March 2020, we presented our initial 2019/20 External Audit Plan, covering both the Council's Financial Statements Audit and the Value for Money Conclusion for same year. Within this Plan, we identified the following significant risks in respect of our Value for Money Conclusion:

- The ongoing Financial Sustainability of the Council

- The Council's response to OFSTED's Inspection of Children's Services

- Governance of the Council's Alternative Delivery Models

The full detail behind each of these risks is shown in the separate VFM Report.

As part of our planning processes, we had undertaken early work on the budget setting processes for 2020/21 where we identified significant concerns regarding the Council's overall financial position. The concerns were raised with management in late March 2020 (as the COVID-19 pandemic lockdown was implemented) and our resulting work ultimately led to October 2020 Report in the Public Interest. The Council subsequently issued its initial Section 114 Notice in November 2020.

We revisited our planning and issued an Audit Plan Addendum, in November 2020, identifying a further risk:

- Governance and Financing of the Council's Group Structures

Discussions with management in January 2021 raised concerns about the Council's refurbishment of Fairfield Halls which re-opened in September 2019. An initial value for money risk was identified however the initial work led to significant concerns and further work was undertaken which led to a second Public Interest Report being issued in January 2022 on this area.

- Refurbishment of Fairfield Halls

The 2019/20 audit continued into 2022 when issues relating to the conditions of the Council's Housing Stock emerged, in particular in relation to the condition of properties in Regina Road, which featured as part of a news investigation into the conditions in which residents were living. Given the historic and current nature of the issues we considered that the underlying arrangements in 2019/20 were impacted by the findings and a further Significant Risk was identified as:

- The condition of the Council's Housing Stock

This report will look to summarise all of these issues insofar as they relate to 2019-20. The most recent Section 114 Notice, issued in November 2022, relates to the financial challenges of the Council from 2023-24 onwards, and hence will be covered within our subsequent Value for Money Reports covering financial years 2020-21, which we will also being looking to issue shortly.

3. Value for Money (continued)

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.

Due to the nature and scale of the risks identified, we have prepared a separate Value for Money Report covering these areas, and this Report is provided alongside this Audit Findings Report for consideration at the Audit Committee.

Proposed Conclusion

On the basis of the significance of the matters we identified with your levels of reserves, the governance of the Council's Alternative Delivery Models, the financing of the Council's Group Structures, and the condition of the Council's Housing Stock, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

4. Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

Issue	Commentary
Report in the Public Interest	On 23 October 2020 we issued a Report in the Public Interest, setting out a range of serious concerns over the Council's financial standing, its financial decision-making and the linked governance arrangements. We raised 20 recommendations within this Report covering the areas mentioned above, which included the following key areas: • Obtaining an understanding of the underlying causes of social care overspends and ensuring robust action is taken to manage demand and the resulting cost pressures in respect of both Adults and Children's. • The Council should challenge the adequacy of the Reserves assessment as part of the annual budget setting process to ensure this is appropriate before the budget is approved, and provide greater challenge to the overall budget ahead of approval. • A review of the outcomes achieved from the use of Transformation Funding to confirm that funding has been applied in accordance with the aim of the scheme. • The use of the Revolving Investment Fund should be reviewed and considered whether the continued involvement is appropriate. • Undertaking a review of the Council's Treasury Management Strategy to consider the ongoing affordability of the strategy and the attached risks and whether the ongoing financial burden can be reduced. • The Council should also review and reconsider its involvement in Brick by Brick and determine whether the financial rationale for doing so remains appropriate. • Finally, undertaking a review of the governance arrangements around the Council's interest in its subsidiaries, how these are linked, and how these subsidiaries link to the overall financial standing of the Council. Following the issuance of the Report in the Public Interest, in November 2020, the Council issued a Section 114 Notice following the identification of a £66 million budget shortfall in 2020/21 which the Council identified there was no way of closing by the end of the financial year. A further two section 114 notices have been issued in relation to budget shortfalls. On 26 January 2022 we issued a second Report in the Public Interest relating to the London Borough of Croydon. This report set out a range of serious concerns regarding the management of the refurbishment of Fairfield Halls which took place between June 2016 and September 2019. We raised 12 recommendations, seven of which were statutory recommendations. This report covered failings including the council's financial, governance and legal arrangements for the Fairfield Halls refurbishment. Under the Local Audit and Accountability Act 2014, it is a statutory requirement of the External Auditor to issue a Report in the Public Interest when 'a significant matter comes to their notice and to bring it to the attention of the audited body and the public.' These reports are rare and very serious. The 2014 Act sets out specific actions which have to be taken when a Council receives a Report in the Public Interest. These actions include holding an extraordinary Council meeting, which were held accordingly for both PIRs, to discuss the Report and the Action Plan which had been agreed by the Council to resolve the issues identified in the Reports. Since the issuance of the Reports the relevant Action Plans have been reviewed and reported on a regular basis to full Council and Cabinet and has been considered by us as external auditors within our Value for Money work, which as mentioned earlier will be reported in a separate Report once all of our work in this area has been completed.

5. 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. The firm, its partners, senior managers and managers have complied with the Financial Reporting Council's Ethical Standards and 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which have been charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
CFO Insights subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £133,102 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Subscription to the Adult Social Care Index	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £133,102 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Action plan

We have identified 13 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the following years audit. 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.

The risk assessment rating reflects the 2019/20 position and progress on implementing the recommendations will be reported in subsequent audits.

Assessment	Issue and risk	Recommendations
● Red	**1. Ensuring that the work of Internal Audit is considered appropriately, and findings are actioned in a timely manner** During the course of 2019/20, Internal Audit issued a 'Limited Assurance' Opinion on the Council's internal control environment, which is the second worst scoring possible and is lower than is normally seen at London Boroughs. It was clear from our discussions with Internal Audit that the Management at the time were unwilling to accept the findings raised and effectively refused to sign off the Opinion for issuance. It is also clear that Internal Audit had been stood down from various internal meetings which they would have normally attended which meant they did not have the chance to discuss the findings from their audits with key Management as would have been the case normally and would normally take place at other Councils. Internal Audit is a key part of the Council's internal control environment, and it is important they have unfettered access to all members of staff to undertake their work appropriately. It is also important that they have clear reporting lines and have the ability to report directly to Those Charged with Governance where appropriate.	Ensure that arrangements are in place to allow Internal Audit unfettered access to all members of the staff within the Council, and that there are clear reporting lines to allow any concerns to be raised in a timely manner. There should also be the option for items to be raised directly with Those Charged with Governance where the need may arise in the future. **Management response** Agreed. The July 2021 Organisation Restructure report, agreed at Full Council on 5/7/21, gave the Head of Internal Audit a dotted reporting line to the Chief Executive and full membership of the Corporate Management Team (CMT) with a standing right to attend CMT for any item and to put any item on the CMT agenda as they see fit. The HoIA also receives all CMT papers in advance. The HoIA also attends Statutory Officers' Group meetings in person and sends update reports directly to the Group.

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Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
Red	**2. Ensuring journals are only posted by staff where fully understood** During our work on journals, we identified a small number of journals which had been posted by members of the finance team without them being able to explain the rationale for these journals. When challenged further, these members of staff raised that these journals had been prepared by the former Head of Finance and they had taken assurance from that individual that the journals were reasonable and appropriate, and thus had posted these to the Ledger on this basis. All staff members should be able to explain the journals that they have posted during the year, even if these have been prepared by other members of the finance team as may happen on some occasions.	Ensure that members of staff only post journals where they are clear on the business rationale for doing so and can explain the purpose of the journal. Where staff do not have this information, they should not post the journal until they are comfortable it is reasonable and appropriate to be posted. **Management response** Agreed. The new Strategic Finance structure includes a new Finance Manager post (reporting to the Chief Accountant) which will be responsible for reviewing and updating systems controls, procedures and guidance notes, and providing ongoing training.
Red	**3. Appropriate use of Transformation Funding** Our testing of the Transformation Funding included within the Accounts identified a number of transactions where the Council was unable to provide an appropriate rationale for these transactions leading to transformational change within the Council, as required by the relevant guidance. The total value of the actual errors identified was **£258k**, which when extrapolated across the total population for the year of **£29.3 million** generated an extrapolated error of **£7.071 million**. However further work in relation to the Croydon Affordable Housing (CAH) and Croydon Affordable Tenures (CAT) transactions, it was concluded that the change in accounting treatment in the CAH and CAT LLP structure based on additional available information being made available to the external audit team led to no capital receipt being generated. Without a capital receipt the total of transformation expenditure funded by flexible capital receipts of **£73 million** was charged directly to revenue. A current year audit adjustment and prior period adjustment has been included in the revised accounts resulting in a reduction in the General Fund position for 2019/20.	Management need to ensure that any judgements in how to apply guidance, such as flexible use of capital receipts, are captured and open to scrutiny within the finance team and with the auditor. **Management response** Agreed

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Controls

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
Medium	**4. Ensuring filing requirements for the Council's Companies is kept up-to-date** As part of our work on the Council's Related Party Transactions and Group Arrangements, we undertook a review of bodies disclosed on Companies House, which identified that one of the Council's wholly owned subsidiaries, the London Borough of Croydon Holdings LLP had been struck off the Register. This was due to the required filings not be done in a timely manner, and the subsequent reminders received by the Council did not make their way to the relevant individual. Whilst the Council has subsequently successfully applied to have this LLP reinstated, and the relevant assets returned from the Crown, it indicates weakness in the arrangements for the governance and monitoring of these arrangements, which is concerning given the number of these that the Council currently has in place.	Ensure clear arrangements are in place to make sure that documents are filed with Companies House in a timely manner to avoid the risk of strike-off action being taken against any subsidiaries in the future. **Management response** Agreed. This is now monitored through the Croydon Companies Supervision and Monitoring Panel (CCSMP) which is chaired by the s151 Officer and includes in its membership the Director of Law and Governance (Monitoring Officer) and the Director of Commercial Investment and Capital.
Red	**5. The setting of an inappropriate Minimum Revenue Provision (MRP)** Our testing of the Council's Minimum Revenue Provision identified that the Council had not included any balances relating to property development loans, investment properties and other capital development costs. Whilst the Council was able to provide a rationale for their approach, we do not feel this produces a prudent Provision, particularly given the performance of Investment Properties and loans to subsidiary companies.	Management should review their approach to calculating their MRP and ensure it is prudent and covers all areas of capital borrowing which have been undertaken by the Council irrespective of their purpose. **Management response** Agreed. The MRP policy has subsequently been reviewed and updated.

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Controls

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
Medium	**6. Ensure all legal documents are signed and stored securely** As part of testing the Council's Long Term Debtors, in particular the Loans which have been issued to Brick by Brick Croydon Ltd, we identified that the Council did not have copies of all of the loan agreements that had been entered into, and where copies were held, not all of these were signed. Irrespective of who the counter party is, it is important that all of these types of documents are signed by all sides in a timely manner, and that the signed documents are appropriately stored so they can be located in the future as the need arises.	Ensure that all loan agreements and similar documents are signed on a timely basis and are filed in a central location which is easily accessible so these can be accessed in the future should the need arise. **Management response** Agreed.
Medium	**7. Undertaking timely and robust Bank Reconciliations** Our work on the Council's Bank Reconciliations identified that whilst a reconciliation was performed at year end as part of the accounts closedown, these had not been regularly performed during the year. Performing these reconciliations in a timely manner is a key part of the system of internal control and allow issues to be identified and resolved in a prompt manner, whereas leaving the reconciliation until year end will not only increase the time it takes but may also make it harder to resolve any reconciling items.	Ensure that bank reconciliations are performed on a monthly basis during the course of the year to ensure that any issues are picked up and resolved in a timely manner. **Management response** Agreed. The new Strategic Finance structure has been designed to add capacity and management oversight for bank reconciliations.

Controls

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
Medium	**8. Ensuring appropriate succession planning is in place for the Finance Team** During the course of the 2019-20 financial year, the Chief Accountant left the Council to take up a different role, and was initially replaced by an interim Chief Accountant, who also moved on after a short period of time. Whilst new team members have come in and subsequently picked the accounts work up, it is clear that a considerable amount of the accounts preparation sat with this one individual, and thus when they left the Council they took an large element of the Council's corporate knowledge with them. Going forward the Council should look to ensure this knowledge is spread more widely within the finance team to ensure they are no longer so reliant on one individual.	As the Council is starting build up its permanent finance team, ensure that tasks are shared more evenly amongst the team so there is less reliance on one or two key individuals as has been the case in previous years. **Management response** Agreed. The new Strategic Finance structure has three Finance Manager posts reporting to the Chief Accountant (for closing/reporting, capital/property companies and systems), which adds capacity and the ability for more shared knowledge.
Medium	**9. Self authorisation of journals** We have identified from our journals testing that a number of journals have been initiated and posted by the same individual. Although our testing showed that none of these journals were indicative of fraud, there is a control weakness that could give rise to the posting of inappropriate journals where no automated control or separate review is in place to ensure that a separate individual posts the journal from the individual who initiated the journal.	Management should ensure that a control is in implemented to prevent users from posting and authorising their own journals within the finance system, where this is impractical to do so detection controls should be implemented such as regular monitoring of journal postings to ensure no inappropriate journals are posted to the system. **Management response** Agreed. The new Strategic Finance structure has added more Finance Manager posts into the service and corporate teams, and this added management capacity will support ensuring that journals prepared by accountants are signed off by their line managers. Also the new structure includes a Finance Manager post (reporting to the Chief Accountant) which will be responsible for reviewing and updating systems controls, procedures and guidance notes, and providing ongoing training. This post will investigate the controls which can be improved in the Oracle financial system for journal workflows.

Controls

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

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Action plan

Assessment	Issue and risk	Recommendations
Medium	**10. Inaccurate FTE data** As part of our early testing of payroll, we identified that Full Time Equivalent (FTE) reports provided were inaccurate. As an example, an individual who was a contractor and not London Borough of Croydon staff, was included within the FTE report as they were required to be input onto 'Myresources' (HR) system in order to access the finance and ledger systems to perform migration of data work. The input of FTE should have been included as 0 on the HR system however had been input as 1 and therefore was input incorrectly. We were unable to gain assurance that the residual individuals included in the FTE reports were included correctly and therefore we were unable to use the FTE report as a key source for our planned audit approach (substantive analytical review) and therefore revised our audit approach to substantive sample testing of individual council staff.	Management should ensure checks are performed on key reports such as FTE reports to ensure that reports used for internal and external reporting purposes are complete and accurate. **Management response** Agreed. The Oracle improvement programme includes an HR workstream which is looking at system, process and reporting improvements for staffing establishments.
Medium	**11. Valuations** Based on our testing performed over asset valuations, we identified that some assets had not been classified under the correct valuation basis (DRC, EUV, FV). There has been no material impact on the closing valuation of these assets for 2019/20 as a result of this deficiency. However, there is a risk that where material assets are not classified correctly for valuations purposes this could cause a material error within the financial statements as they could be valued incorrectly.	We therefore recommend that management reviews the valuation basis of assets per the Fixed Assets Register with a focus on those showing as FV, OMV or those left blank. **Management response** Agreed.

Controls

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
Medium	**12. Management's assessment of assets not revalued in year** We reviewed management's assessment of those assets which had not been formally revalued in-year and noted deficiencies within management's assessment including: • The adjustment factor calculation was incorrect • It was significantly challenge for us to reperform managements calculations due to poor links between the working papers and the FAR/Valuer's report. On challenge, management has explained that this assessment had been rolled forward from prior years and therefore the methodology is outdated. There is a risk that assets that have not been revalued have a materially different carrying value at the balance sheet date and are not picked up by management through their assessment performed.	Management should look to update the methodology used from 2020/21 to perform a more robust assessment of un-revalued assets at year with clear links to the FAR and the valuation reports to ensure assets valuation does not materially differ from the carrying value and are valued correctly at the year end date. **Management response** Agreed. Most assets have been revalued on a two yearly basis in recent years to improve the accuracy of valuations in the accounts, and the methodology of assessment of un-revalued assets will be reviewed.
Medium	**13. Investment Properties and Land and Building Valuations** During our testing over valuations of Investment Properties and Land and Buildings, we challenged the external valuers (Wilks, Head and Eve) over whether they had tested the classification of assets against the definitions within the Code. They have confirmed that this is not a test that they perform directly based on instruction received from Croydon. There is a risk that investment properties and land and buildings are incorrectly classified where reviews are not performed over classification of assets which could in turn provide an incorrect asset valuation.	We recommend that the Council reviews its asset classification to mitigate any risks/issues with wrong classifications. This exercise could either be performed by the valuers or the Council, this is especially important in cases where there is a significant change with an asset in year. **Management response** Agreed.

Controls

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
Red	**14. Application of transformational capital receipts** The Council entered into a complex group arrangement in order to generate capital receipts to allow application of the flexible use of capital receipts for transformation. Upon additional information supplied by the council, a re-review of the accounting for the structure of the arrangements identified that no capital receipt should have been generated resulting in transformational expenditure previously applied as capital was required to be reclassified to direct revenue expenditure impacting on the general fund position. There is a risk that the accounting treatment of complex arrangements entered into by the Council are not fully understood which can have significant impacts on the accounting treatment and finances of the Council.	Management should look to ensure it fully understands the accounting treatment and accounting impacts of complex structures before they are entered into. **Management response** Agreed.

Controls

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Action plan – IT Audit

We have also identified six recommendations for the group as a result of issues identified from the work performed by our IT Audit Team during the 2019-20 Accounts Audit – these issues and Management's responses were reported to management in October 2020 and to Those Charged With Governance in January 2021 but we have included again here for completeness. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the following years audit. 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	Issue and recommendation	Management Response
● Medium	**Segregation of duties conflicts between Oracle system administration, developer, and finance roles** We recommend management consider reviewing the elevated access assignment and, where possible, restricting Oracle administrator access to members of the IT department only with all conflicting finance responsibilities being removed from System administrator accounts. Should management choose to accept the risks associated with the system administrators and finance conflicts, formalised and documented controls should be implemented to monitor the use of system administrator access. This monitoring should be achieved through after-the-fact reports listing management approval for the actions (e.g., transactions posted, queries executed, records updated) performed. Given the criticality of data accessible through financially critical systems, logs of information security events (i.e., login activity, unauthorized access attempts, access provisioning activity) created by these systems should be proactively and formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	We have reviewed the information provided by the auditor. We found that all the users listed are either system accounts or members of the support and implementation team. We have ended the implementation user accounts. Given the nature of these roles the identified conflicts will exist. We will investigate options to implement appropriate formalised and documented controls to monitor system administrator and support team access. We presented a paper for the My Resources Board to review and consider options, as part of the agenda item on risks, at their meeting in November 2020.

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Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Action plan – IT Audit

Assessment	Issue and recommendation	Management Response
Medium	**Oracle system configuration access granted to an excessive number of users, including non-IT staff / end users** Management should consider reviewing all users with system configuration capabilities assigned and, where possible, removing this from end users / limiting this access to members of IT department. Should management choose to accept the risks associated with this access being granted to end users from outside of IT, formalised and documented controls should be implemented to monitor the use of this ability. This monitoring should be achieved through after-the-fact reports listing management approval for the actions performed.	The task of reviewing users with system configuration capabilities is a significant undertaking therefore the approach we intend to take is to investigate options to monitor system configuration changes. We presented a paper for the My Resources Board to review and consider options, as part of the agenda item on risks, at their meeting in November 2020.
Medium	**Users self-assigning responsibilities without formal management approval** Where administrative staff require additional functionality, they should be required to request this through the formal change management procedures. Any such access granted should be end-dated accordingly. Management should implement monitoring controls to identify instances where members of staff have assigned themselves additional responsibilities and any non-compliance with the abovementioned process investigated.	1) We have identified that there has been assignment of forecast approver roles within the projects module by project managers. We will review appropriate controls with Finance and Oracle. 2) The majority of self-assignment occurred during or just after implementation. We have now removed access to the IT security manager role from 3rd Party support staff. 3) We will restate the message that that the internal My Resources support team must not self-assign roles and must follow the normal user access request process if they require additional responsibilities. We will also introduce monitoring controls via a report to identify instances where members of staff have assigned themselves additional responsibilities and any non-compliance. This report will be sent to the Head of Finance and HR Service Centre for review and investigation of any non-compliance.

Controls

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Action plan – IT Audit

Assessment	Issue and recommendation	Management Response
Medium	**There is an excessive number of Admins on the Oracle Cloud system and no evidence was provided to identify them** Management should formally review the system administrators access to the network and restrict this access only to appropriate users. Apply a least privilege basis to all users to ensure users have appropriate access and any additional access required is documented and approved.	A formal review was started in 03/2020, we looked at 235 domain admin users and 626 Server admins users. The results of this review prompted the Littlefish 'AD Health Check' of which, there is a full remediation proposal awaiting to be approved. In addition, we have recently extended to our review to 172 admin accounts in O365/Azure. Lastly, a 'Privileged Group Access Standard' was created to minimise the amount of privileges accounts we have and define an approval process.
Medium	**No Monitoring of Third-Party Activities undertaken on Northgate i-World** Management should implement controls around how the vendor gains access to the production environment. This can be achieved by enabling and disabling access when it is required by the vendor to apply approved change into the production system. Management should also consider reviewing the user activities of the account used by the vendor. This will assist in ensuring that there is appropriate oversight into how the vendor accesses the i-World production environment.	LBC will implement a process with vendors whereby access is granted for a limited time and monitored during the access period. Once changes have been agreed or approved with or by LBC vendors will have access to the system as required within the scope of the change for a duration appropriate to complete their activity. During the period of access and immediately after the vendor's activity and changes will be reviewed and signed off against the scope of the change by a system administrator within LBC. This will be implemented by 14 August 2021, all vendor accounts will be locked by this date.

Controls

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Action plan – IT Audit

Assessment	Issue and recommendation	Management Response
● Medium	**Sharing of Administrative Account on Northgate i-World** Management should use named administrator accounts within IT systems in order to establish accountability. The use of individually named administrator accounts allows for the tracking of administrator activities within the system. Generic accounts should also be removed/disabled from the system.	LBC will only use named accounts for administrative tasks, or accounts which have a sole responsible party attached to them. BATCHJOB will be discontinued and administrators will use their own accounts for system changes or batch work. When an administrator moves on from their role if there is a requirement to maintain the account to ensure batch work can continue their account will be signed over to a senior officer within the ICT support team who will own the account until all dependencies are expired, the account will then be processed as a leaver. This will be documented to provide an audit trail. BATCHJOB were discontinued by 14 August 2020. The RB user account is an “out the box” admin account that only certain jobs can be run from, this must remain a shared account however LBC will implement a process whereby access to the account is requested and approved/not approved by the ICT manager for individual officers for agreed periods of time/activities. This will be documented to provide an audit trail. RB ownership will change from 1 October 2020. There is work to be done to remove integrations off the RB user before restricting the access.

Controls

● - Red - High – Significant effect on control system

● - Amber - Medium – Effect on control system

● - Green - Low – Best practice

 | Audit Findings Report for the London Borough of Croydon | 2019/20

Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Croydon's 2018/19 financial statements, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note one recommendation is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Incomplete Accruals of Income and Expenditure** During the course of our work on Income and Expenditure, we identified several items which had either been incorrectly accrued, or had not been accrued, both from an income and expenditure perspective. Whilst we were able to gain assurance that the impact of these errors was not material, the Council should look to strengthen its controls in this area to ensure the Accounts contain all of the relevant items in following years. We recommended that the Council should revisit the Council's Accruals processes to ensure that items are correctly treated during the accounts preparation process. The Council should consider whether any de-minimus limits are set appropriately to ensure time is focused on those areas which could have a material impact on the Accounts.	Our work is subject to final quality review in this area. Based on our work performed to date we have not identified any material issues relating to incomplete accruals of income and expenditure. On completion of our audit we will report to management and TCWG any non-trivial issues identified from our work performed in this area.
X	**Accounting for New Arrangements** In 2017/18, we raised a recommendation in respect of the need for the Council to consider the accounting arrangements for the new ventures which the Council is embarking on during the development process, rather than once the arrangement is in place. This mainly related to the setting up of Croydon Affordable Homes LLP, where due consideration was not given to the reverse lease premium the Council benefitted from under this arrangement. We highlighted that unless this was given appropriate consideration during the development process, then the Council could experience some unforeseen circumstances when preparing the financial statements at year end. Further issues were identified during 2018/19, partly relating to the potential transfer of properties from the Council to the Pension Fund.	Based on the work performed on Croydon Affordable Housing, management have reconsidered their judgement on how to account for the transactions and balances as a result of a technical review undertaken. This has resulted in a significant prior period adjustment to the Council's accounts where expenditure which was previously capitalised under transformational funding has now had to be reversed and be treated as revenue expenditure, which has impacted on the Council's General Fund Position. It is our view that this prior year recommendation raised was not satisfactorily addressed in the 2019/20 financial year and resulted in a prior period adjustment and significant in year audit adjustment. Previous recommendation will remain open for the future year audit and progress followed up accordingly.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Croydon's 2018/19 financial statements, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note one recommendation is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Incorrect Data shared with the Valuer** In the prior year we identified some issues with the integrity of the data passed to the Valuer ahead of the revaluation exercise, which could have potentially resulted in errors in the valuations performed by the Valuer. We highlighted the need for the Council to ensure the integrity of the data based to the Valuer ahead of the annual revaluation exercise. During our work on the Council's valuations in 2018-19, we identified one property included in the valuation schedule which had been disposed by the Council in previous years and thus shouldn't have been revalued. We also identified a second property where the whole property was valued but the Council only owns a percentage of this property, and thus the whole value should not have been included in the accounts.	Based on our testing performed of completeness and accuracy of data shared with the valuer we have not identified any material issues. We are therefore satisfied that issue and risk previously communicated as part of our prior year audit has been addressed in the financial year.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Reinstatement of Capital Spend on Fairfield Halls As mentioned earlier in the Report, we identified that **£62.6 million** of renovation costs in respect of Fairfield Halls had been incorrectly recorded in the Accounts of Brick by Brick, when the asset had never formally transferred from the Council and thus the spend should have been recorded in the Council's Accounts instead. This involves turning the loans issued by the Council to Brick by Brick to capital additions, and then adjusting the linked revaluation movements via the relevant Reserves. Amendments have been made to the 2019/20 figures for this, and a restatement of the 2018/19 figures has also been processed as these balances have moved materially as part of the restatement. The figures disclosed in the table is the total adjustment covering the whole life of the project to date.	Dr Expenditure 11,035 Dr Surplus or Deficit on Revaluation 51,626 Cr Movement in Reserves Statement 62,661	Dr Revaluation Reserve 51,626 Dr Capital Adjustment Account 11,035 Cr Long Term Debtors 62,661	Nil impact on total net expenditure – the balances are moved to Reserves via the Movement in Reserves Statement.
Write out of Interest Receivable from Brick by Brick for Loans taken out for Fairfield Halls Linked to the item above, the Council had accrued **£9.15 million** of interest that was expected to be received from Brick by Brick for the loans given to them for the refurbishment of Fairfield Halls. As a result of these loans being turned into capital additions, this interest is no longer receivable and has been removed from the Council's Accounts.	Dr Financing and Investment Income and Expenditure 9,150	Cr Receivables 9,150	An increase in total net expenditure of 9,150
Overall impact (of just the issues on this page)	**£9,150**	**£9,150**	**An increase of £9,150**

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Audit adjustments

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Review of Allowance for Credit Loss for Short Term Debtors From the work performed to date, we have identified issues relating to the Allowance for Credit Losses included within the draft Accounts. Firstly our review of the element of this Allowance relating to Housing Benefit Debtors identified that the calculation initially performed by the Council was incorrect, leading to an understatement of this element by **£1.5 million**. Secondly, during the course of the audit, the Council identified a considerable balance relating to outstanding Schools Utility Charges which were several years old and hence an allowance should have been made against these items. It was identified that the additional allowance required for these charges was **£4.5 million**. Further investigation also identified that the calculation of the outstanding Schools Utility Charges had omitted **£3.1 million** of invoices which were raised in 2019-20 but relates to costs incurred over previous years, some items going as far back as 2012. As these items were not accrued for in previous years, it means the closing Receivables balance at 31 March 2019 was understated by this balance, which is likely to mean that the provision made of **£4.5 million** could be understated based on the age profile of this debt. As a result of issues identified in relation to understatement of receivable credit loss allowance, management performed a review of credit loss allowance of receivables through an opening the books exercise which identified a **£28.9 million understatement** of credit loss allowance. An overall audit adjustment of £28.9 million has been charged against the Council's General Fund Balance, in line with the standard accounting for these items, and thus have generated a reduction in the General Fund balance of **£28.9 million** from that reported in the draft Financial Statements.	Dr General Fund Expenditure £28,872	Cr Receivables £28,872	Increases by £28,872
Recharges to the Housing Revenue Account As a result of issues identified during the external audit, management performed an 'Opening the Books' exercise which identified a review of recharges made to the Housing Revenue Account. This review identified that the original recharge made to the Housing Revenue Account was too high and therefore £7.12 million is required to be recharged back to the General Fund resulting in a **£7.12 million** decrease to the general fund position.	Dr General Fund Expenditure £7,120	CR HRA Reserve £7,120	Increases by £7,120
Overall impact (of just the issues on this page)	**£35,992**	**£35,992**	**Increases by £35,992**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Incorrect Valuation of the Investment in the Real Lettings Fund Our testing of the Council's investment in the Real Lettings Fund identified that this was being held at cost instead of fair value as is required by the CIPFA Code. The Council has subsequently adjusted the valuation of this investment, which increases the value of this investment by **£2.0 million**. This issue has been identified in previous years and was reported as an Unadjusted Misstatement in the 2018-19 Audit Findings Report.	Cr Financing Income and Expenditure £2,000 Dr Movement in Reserves Statement £2,000	Dr Long Term Investments £2,000 Cr Financial Instruments Adjustment Account £2,000	Reduces by £2,000
Incorrect Classification of Loans issued to Brick by Brick Croydon Ltd During our work on the loans issued to Brick by Brick Croydon Ltd, we identified that delays in the publication of the 2019-20 Brick by Brick Accounts meant the covenants attached to these loans had been breached, meaning they were effectively repayable immediately to the Council, if the Council had chosen to exercise that option. As a result, all of these loans have been reclassified as Short Term Debtors in the Council's Accounts, from the Long Term Debtors balance where they were previously recorded.	n/a – no impact on the CIES	Dr Short Term Debtors £141,966 Cr Long Term Debtors £141,966	No impact on total net expenditure, this is just a movement on the Statement of Financial Position.
Overall impact (of just the issues on this page)	**£2,000**	**£2,000**	**Reduces by £2,000**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Incorrect inclusion of Cash held on behalf of the Local Enterprise Partnership Our work on the Council's Cash Balance in year identified that in 2018-19, the Council had incorrectly recorded the cash held on behalf of the Local Enterprise Partnership (LEP), Coast to Capital, as an asset and liability within the Council's Statement of Financial Position, when this should have been excluded as it was just being held on behalf of the LEP as the Council was the Accountable Body for a three-year period, which ended in April 2020. Thus a prior period adjustment was required to amend this item, which had no impact on the overall financial standing of the Council but reduced Current Assets and Current Liabilities by the same balance.	n/a – no impact on the CIES	Dr Cash Overdraft £TBC Cr Cash £TBC	n/a – no impact on total net expenditure – this is purely a reduction of assets and liabilities on the Statement of Financial Position.
Incorrect adjustment for the Dedicated Schools Grant Deficit Position The original 2018/19 Statement of Accounts included a £9.193m Deficit (2017/18 £0.963m) in Dedicated Schools Grant (DSG) as a Receipt in Advance on the balance sheet, on the basis it was an unadjusted non-material error. However, the 2018/19 Balance Sheet has now been restated to reflect a change in the accounting treatment of the of Dedicated Schools Grant Deficit. On the 30 January 2020 the Secretary of State for Education laid before Parliament the School and Early Years Finance (England) Regulations 2020. These regulations came into force on 21 February 2020 and are applicable to local authority accounting periods beginning on 1 April 2020. CIPFA released its Bulletin no.5 'Closure of the 2019/20 Financial Statements' in April 2020 in which it clarified how a DSG deficit should be treated. The new regulations are considered to provide a statutory basis for the holding and disclosing of negative earmarked reserves solely relating to the retained deficits arising from accumulated DSG expenditure. Therefore the 2017/18 and 2018/19 DSG Deficit has been reclassified and included as a negative earmarked reserve.	**2019/20 Impact:** no impact as held as a negative reserve **2018:19 Impact:** prior period adjustment reflected DR Income £9,193 CR General Fund Expenditure £9,193 DR Earmarked Reserve £9,193	**2019/20 Impact**: no impact as held as a negative reserve **2018:19 Impact:** prior period adjustment reflected CR Receivables £9,193	n/a – no impact on total net expenditure – this is a presentational change on the face of the Statement of Financial Position and Movement in Reserves Statement.
Overall impact (of just the issues on this page)	**Nil impact**	**Nil impact**	**n/a – no impact**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Minimum Revenue Provision Based on our review of the revised minimum revenue provision policy, we concluded that the changes made did not provide a prudent charge of MRP as required by the statutory guidance. We did not agree with management's view that MRP should not be charged on investment properties, nor did we agree with management's view not to charge MRP on the loans issued to Brick by Brick Croydon Ltd. The Council is of the view that as they were planning to receive interest back from Brick by Brick, which was going to fund the repayment of the debt initially taken out by the Council, no MRP charge was required. Based on our audit findings management re-reviewed the MRP charge and have now included £141million of Brick by Brick loans into its MRP calculation. This has resulted in management recognising a further **£6.7 million for 2019/20** required to increase the MRP charge. This adjustment has been reflected in the revised 2019/20 accounts and reduced the General Fund and Earmarked Reserves position.	DR General Fund Expenditure £3,544 DR Earmarked Reserves £3,164	CR Capital Adjustment Account £6,708	DR Expenditure £6,708
Overall impact (of just the issues on this page)	**£6,708**	**£6,708**	**Increases by £6,708**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Transformation Expenditure From our testing of items classified as Transformational Expenditure by the Council we identified • 5 items which did not meet the requirements to be treated in this manner, generating an actual error of **£258k**. This generated an extrapolated error of **£7.071 million**. Where we undertake sample testing we extrapolate the error across the whole population. Due to audit findings in this area and as a result of management performing an opening the books exercise as well as work performed over the Croydon Affordable Housing transactions, it was concluded that all of the transformation expenditure capitalised since 2017/18 was not eligible capital expenditure. The total of transformation expenditure funded by flexible capital receipts removed due to the removal of Croydon Affordable Housing and Croydon Affordable Tenures capital receipts is **£73 million**. A current year audit adjustment and prior period adjustment has been included in the revised accounts resulting in a reduction in the General Fund position for 2019/20.	Nil impact as expenditure was already included in the General Fund	**2019/20 Impact:** Dr Capitalisation £29,268 CR Capital Receipts £29,268 **2018/19 Impact:** Dr Capitalisation £29,307 CR Capital Receipts £29,307 **2017/18 Impact:** Dr Capitalisation £14,503 CR Capital Receipts £14,503	Nil impact
Overall impact (of just the issues on this page)	**£0**	**£0**	**£0**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Croydon Affordable Homes As mentioned earlier within the Report, following the work on Croydon Affordable Homes and the reversal of the original accounting treatment, the Council had to reverse all of the transactions relating to CAH over the past three years. In brief this meant the Council had to reverse the disposals to CAH, and then incurred additional Depreciation on these Assets. These entries have been set out separately here to aid review and understanding.	**1) Reversal of Disposals to CAH** Dr MIRS £25,035 Cr Loss on Disposals £25,527	Dr PPE Assets £25,527 Cr Capital Adjustment Account £24,535 Cr Revaluation Reserve £501	Reduces by £25,035
	2) Reinstatement of Depreciation Dr Depreciation Expense £2,689	Cr PPE Assets £2,196 Cr Revaluation Reserve £493	Increase by £2,689
Overall impact (of just the issues on this page)	**Cr £23,346**	**Dr £23,346**	**Reduces by £23,346**
Overall Impact on Financial Statements	**DR Deficit on Provision of Services £67,315** **DR Other Comprehensive Income £51,626** **DR MIRS £25,035** **Total Impact DR £143,977**	**CR Net Assets £104,620** **CR Reserves £39,357** **Total Impact CR £143,977**	**Total Impact DR £143,977**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Narrative Statement and Annual Governance Statement	Disclosure of s114 Notice and Report in the Public Interest	The Narrative Report has been updated to reflect the issues which have been identified since the end of the 2019/20 Accounts which were applicable to the year in question, such as the issuance of the Report in the Public Interest and the issuance of the s114 Report.	✓
Notes 7, 10, 12, 16, 23, 32, 33 and 43 – and the Group Accounts	Restatement of Capital Expenditure relating to the redevelopment of Fairfield Halls of **£62.6 million**	The notes mentioned have been updated to reflect the impact of the restatement of the capital expenditure incurred in the redevelopment of Fairfield Halls, as identified on the previous pages, through the remainder of the Accounts. These changes have also been reflected in the Group Accounts as well.	✓
Notes 7, 10, 16, 22, 32 and 43 – and the Group Accounts	Reversal of Interest Receivable from Brick by Brick Croydon Ltd of **£9.15 million**.	The notes mentioned have been updated to reflect the impact of the restatement of the interest receivable from Brick by Brick from the loans issued for the redevelopment of Fairfield Halls, as identified on the previous pages, through the remainder of the Accounts. These changes have also been reflected in the Group Accounts as well.	✓
Note 16 - Financial Instruments and Note 23 – Unusable Reserves	The updated valuation of the Real Lettings Fund to **£47 million**.	The notes mentioned have been updated to reflect the impact of the restatement of the Council's investment in Real Lettings Fund, as identified on the previous pages, through the remainder of the Accounts.	✓
Note 37 – Contingent Liabilities	Narrative relating to ongoing arbitration claim	Updates have been made to the narrative relating to a dispute in arbitration. Update required as case expected to resolve prior to audit sign off and appropriate adjustments will need to be agreed.	✓
Note 6- Events after the Reporting Period	A number of events have occurred since the draft financial statements were issued due to the length of time the audit has been open that required disclosure in the revised financial statement of accounts.	Events after the reporting period relating to conditions that existed at the end of the reporting period and those that are indicative of conditions that arose after the reporting period require either disclosure or adjustment to the financial statements. A number of non-adjusting post balance sheets have been disclosed in the revised financial statements relating to events that are indicative of conditions that arose after the reporting period.	✓

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Note 43 – Prior Period Adjustments	Inconsistency between the CIES Balance in the Note and the main Statement.	An update has been made to Note 43 to ensure that the CIES balance shown as part of the disclosure relating to the Prior Period Adjustment for the restatement of the Dedicated Schools Grant is consistent with the main CIES at the start of the Accounts.	✓
Note 43 – Prior Period Adjustments	Various additional disclosures relating to the Fairfield Halls Restatement and Croydon Affordable Housing LLP arrangement	Note 43 has been updated to reflect the prior period adjustments required due to the restatement of the expenditure incurred as part of the redevelopment of Fairfield Halls, which has required a restatement of the 2018-19 balances which is considered within this Note. Note 43 has also been updated to reflect the prior period adjustments required due to the restatement of accounting for the Croydon Affordable Housing LLP and Croydon Affordable Tenures LLP transactions.	✓
Note 43 – Prior Period Adjustments	Disclosures relating to the disclosure of the Cash held by the Council on behalf of the Coast to Capital Local Enterprise Partnership	Our work during the course of the year identified that the Council had been showing the cash held with the Coast to Capital Local Enterprise Partnership as both an asset and liability in the Accounts, when it should have been removed from both sides as it is not the Council's Cash. As this issue was present in 2018-19 as well this has required a prior period adjustment to correct the 2018-19 figures as well.	✓
Group Accounts	Omission of notes relating to group accounts.	There are a number of transactions and balances within the group accounts that are significant different to the single entity accounts which require accompanying notes. Management has agreed to update the group accounts to include notes where there are material differences in the group transactions and balances from the single entity accounts.	✓
Minor Disclosure Issues	Various Notes	A number of other minor disclosure amendments have been processed in the areas mentioned. None of these are individually significant enough to warrant separate disclosure.	✓

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Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Housing Benefit Debtors We identified a sample item at £3,235 relating to an overpayment where the cash had been received pre year end and therefore was not a valid debtor at 31 March 2020. We extrapolated this error across the population which resulted in an extrapolated error of **£738k**.	N/A - No impact	Dr Cash £738 Cr Debtors £738	N/A - No impact	Non-material extrapolated error.
Capital Grants received in Advance We performed sample testing on capital grants received in advance and identified two instances where balance on capital grants received in advance relating to s106 agreements had been overstated. The factual errors of overstatements identified were £36k and £26k. These errors were extrapolated over the population which resulted in an extrapolated error of **£517k.**	N/A - No impact	Dr Capital Grants Received in Advance £517 Cr Cash £517	N/A - No impact	Non-material extrapolated error.
Overall impact (on this page only)	**£nil**	**£nil net**	**£nil**	

Audit adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’ 000	Impact on total net expenditure £’000	Reason for not adjusting
Cash and Cash Equivalents As part of our audit testing in this area we performed a reconciliation between direct confirmations obtained for money market funds and the balance included within the general ledger. This identified a difference of £399k where the cash and cash equivalents balance was understated.	Cr Income £399	Dr Cash and Cash Equivalents £399	Cr Income £399	Non-material error.
Cash and Cash Equivalents As part of our audit testing in this area we reperformed the bank reconciliation between direct confirmations received from bank accounts held by the Council and the balance included within the general ledger. This resulted in an unreconciled difference of £2.8 million (understatement of bank overdraft).	Dr Expenditure £2,800	Cr Cash and Cash Equivalents £2,800	Dr Expenditure £2,800	Non-material error.
Grant Income We performance sample testing on grant income received and recognised by the Council. We identified some variances between the grant letters viewed and the amount recognised by the Council. We extrapolated the variances identified which resulted in an extrapolated error of £682k, being the overstatement of grant income.	Dr Income £682	Cr Receivables £682	Dr Income £682	Non-material extrapolated error.
Collection Fund We performed a reconciliation between the general ledger (GL) and Northgate subsystem (Council Tax System). During our reconciliation exercise we identified that GL was understated by £1,160k. Northgate Reports are considered source reports and therefore considered to have the correct values and therefore any difference from Northgate has been considered a reconciling misstatement. This results in an understatement of £1,160k of council tax income.	Cr Council Tax Income £1,160	Dr Cash £1,160	Cr Council Tax Income £1,160	Non-material error
Overall impact (on this page only)	**£1,923**	**£1,923**	**£1,923**	
Overall Impact on Financial Statements	**DR Deficit on Provision of Services £1,923**	**CR Net Assets £1,923**	**DR Deficit on Provision of Services £1,923**	**Non-material impact on financial statements.**

Audit adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Data provided to managements external valuer We identified issues with the data passed from the Council to the Valuer, similar issues have been found in 2019/20, where updated information was not always made available to the valuer in a timely manner. We performed a completeness check of data sent to the valuer which identified some floor areas did not agree back to data used by the valuer and some properties held on an EUV and FV basis did not tie back to lease agreements and tenancy schedules held by the council. We extrapolated the errors identified and concluded an extrapolated error of £1.4m of potentially understatement of valuation of assets based on discrepancies in data being supplied to the valuer.	Cr Other Comprehensive Income- Surplus on revaluation of non-current assets £1,446	Dr Property, Plant and Equipment £1,446	Cr Other Comprehensive Income- Surplus on revaluation of non-current assets £1,446	Non-material extrapolated error.
Operating Expenditure As part of our testing of operating expenditure we identified 13 items which failed the test for occurrence and accuracy due to lack of evidence being provided by the council. We extrapolated the samples failed for lack of evidence which resulted in an extrapolated error of £2.586m. The council are currently working to re-review the evidence provided which may reduce the errors identified.	DR Expenditure £2,586	CR Creditors £2,586	DR Expenditure £2,586	Non-material extrapolated error.
Overall impact (on this page only)	**£1,446**	**£1,446**	**£1,446**	
Overall Impact on Financial Statements	**DR Deficit on Provision of Services £5,809**	**CR Net Assets £5,809**	**DR Deficit on Provision of Services £5,809**	**Non-material impact on financial statements.**

Audit adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements and provides an update on their position within the 2019/20 Accounts.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	**Incorrect Treatment of Dedicated Schools Grant (DSG) Deficit** Due to pressures within the High Needs Block within DSG the Council has provided additional funding in excess of the government grant to meet local needs and as a result has a cumulative DSG deficit of £9.3m at the end of 2018/19. The Council has shown the deficit amount as a Debtor indicating that the Council believes this amount is recoverable. Our audit view is that it is unlikely that this amount will be repaid, and we consider the debtor should not be recognised as a debtor.	**2019-20 Impact:** no impact as held as a negative reserve **2018-19 Impact:** prior period adjustment reflected Dr Income £9,193 Cr General Fund Expenditure £9,193 Dr Earmarked Reserve £9,193	**2019-20 Impact**: no impact as held as a negative reserve **2018-19 Impact:** prior period adjustment reflected Cr Receivables £9,193	Increase of 18/19 general fund position £9,193	**2019/20 Update** – as mentioned earlier in the Report, the Council has processed a prior period adjustment for this item and hence it is now correctly recorded in the Accounts.
	Overall impact	£9,193	£9,193	£9,193	

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit – Scale Fee	£133,102	£188,602
Council Audit – Additional Fees (agreed to date)	n/a	£203,000
Council Audit – Additional Fees (yet to be agreed)	n/a	£50,000*
Work on 1st Report in the Public Interest	n/a	£65,000
Work on 2nd Report in the Public Interest	n/a	£140,750
Total audit fees (excluding VAT)	**£133,102**	**TBC (£597,352)**

A number of the costs relating to the 2019/20 Audit have yet to be finalised and will need approval by Public Sector Audit Appointments (PSAA) before we are able to invoice these to the Council. We have communicated the current position to the s151 Officer, who provided an update to the Audit Committee in July 2023. We will agree any further additional fees with the s151 Officer as part of concluding the audit *

Non-audit fees for other services	Proposed fee	Final fee
Non-Audit Related Services		
- CFO Insights	£10,000	£10,000
- Adult Social Care Index	£12,500	£12,500
Total non-audit fees (excluding VAT)	**£22,500**	**£22,500**

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Appendix 2

Value for Money Findings Report for 2019/20

London Borough of Croydon

30 November 2023

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Summary of findings

Overview

The NAO issued its guidance for auditors on Value for Money Work in November 2017, which covered the financial years up to 2019/20 inclusive. The guidance (Auditor Guidance Note 3 (AGN 03) stated that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This report sets out the findings from our work in respect of our Value for Money Conclusion for the London Borough of Croydon for the 2019/20 Financial Year, in line with the guidance issued by the NAO as mentioned above.

Timeline

The 2018/19 value for money conclusion was adverse due to the significance of the matters we identified with the ongoing financial management and the matters relating to Children's Services raised by OFSTED.

In March 2020, we presented our initial 2019/20 External Audit Plan, covering both the Council's Financial Statements Audit and the Value for Money Conclusion for same year. Within this Plan, we identified the following significant risks in respect of our Value for Money Conclusion:

- **The ongoing Financial Sustainability of the Council**
- **The Council's response to OFSTED's Inspection of Children's Services**
- **Governance of the Council's Alternative Delivery Models**

The full detail behind each of these risks is shown later in the Report.

As part of our planning processes, we had undertaken early work on the budget setting processes for 2020/21 where we identified significant concerns regarding the Council's overall financial position. The concerns were raised with management in late March 2020 (as the COVID-19 pandemic lockdown was implemented) and our resulting work ultimately led to October 2020 Report in the Public Interest. The Council subsequently issued its initial Section 114 Notice in November 2020.

We revisited our planning and issued an Audit Plan Addendum, in November 2020, identifying a further risk:

- Governance and Financing of the Council's Group Structures

Discussions with management in January 2021 raised concerns about the Council's refurbishment of Fairfield Halls which re-opened in September 2019. An initial value for money risk was identified however the initial work led to significant concerns and further work was undertaken which led to a second Public Interest Report being issued in January 2022 on this area.

Further discussions with management identified two further risks.

- Refurbishment of Fairfield Halls

The 2019/20 audit continued into 2022 when issues relating to the conditions of the Council's Housing Stock emerged, in particular in relation to the condition of properties in Regina Road, which featured as part of a news investigation into the conditions in which residents were living. Given the historic and current nature of the issues we considered that the underlying arrangements in 2019/20 were impacted by the findings and a further Significant Risk was identified as:

- **The condition of the Council's Housing Stock**

This report will look to summarise all of these issues insofar as they relate to 2019-20. The most recent Section 114 Notice, issued in November 2022, relates to the financial challenges of the Council from 2023-24 onwards, and hence will be covered within our subsequent Value for Money Reports covering financial years 2020-21, which we will also being looking to issue shortly.

Conclusion

Under AGN 03, we are required to focus our work on the Significant Risks identified, mentioned above, and determine whether the Council has sufficient arrangements in place to support effective Value for Money. Following the completion of our work in respect of the Risks mentioned above, we are proposing to issue the following Conclusion in respect of the Council:

On the basis of the significance of the matters we identified with your levels of reserves, the governance of the Council's Alternative Delivery Models, the financing of the Council's Group Structures, the issues within the refurbishment of Fairfield Halls and the condition of the Council's Housing Stock, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.

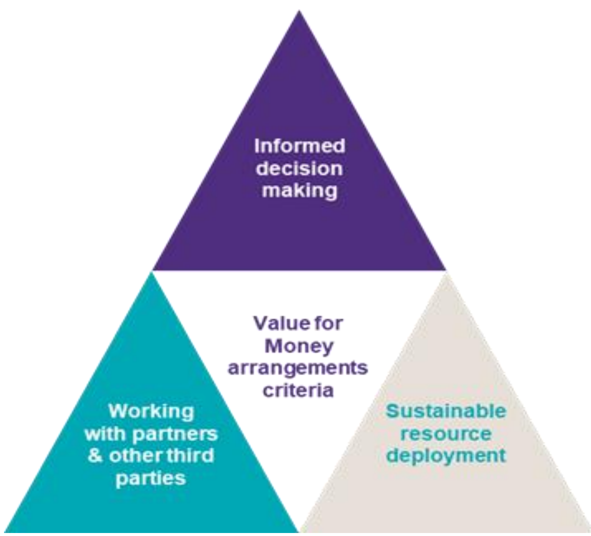
Our Approach to VfM Risks

Overview of VfM methodology and risk assessment

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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether the Authority had, in all significant respects, 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 this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

This is supported by three sub-criteria for auditors to consider, as set out in the following diagram:



As part of planning, auditors are required to consider the risk of reaching an incorrect conclusion in relation to the overall criterion. The risk assessment enables the auditor to determine the nature and extent of further work that may be required. This means that if the auditor does not identify any significant risks there is no requirement to carry out further work.

The risk assessment draws on relevant information including, but not limited to:

- cumulative knowledge brought forward from previous audits;
- relevant findings from work undertaken in support of the opinion on financial statements;
- reports from the audited body including internal audit;
- information disclosed or available to support the annual governance statement and annual report (where applicable);
- information available from the audited body's own risk registers and supporting arrangements; and
- reports from regulators or inspectorates in relation to services provided by the audited body.

Where the auditor has identified 'significant risks' or is unable to conclude whether a significant risks exists without undertaking significant additional work, the auditor should document the additional work they plan to do in response and report these risks to those charged with governance. Any additional work undertaken should be proportionate to the severity and nature of the significant risk(s) identified.

VfM Significant Risks for 2019-20

Overview

As mentioned in the Summary, we identified five significant risks in respect of the Council's Value for Money Conclusion for 2019-20, which were as follows:

- **The ongoing Financial Sustainability of the Council**
- **The Council's response to OFSTED's Inspection of Children's Services**
- **Governance of the Council's Alternative Delivery Models**
- **Governance and Financing of the Council's Group Structures**
- **Refurbishment of Fairfield Halls**
- **The condition of the Council's Housing Stock**

The detail behind each of these risks is documented on the following three pages of the Report.

Ongoing Financial Sustainability

Risk

The Authority is continuing to face pressure on delivering its services within the agreed budget with particular pressures with Adult Social Care and Unaccompanied Asylum Seeker Children as well as increased demand for temporary accommodation and the impact of nil resource to public funds.

are putting the Authority's finances under considerable strain. Therefore the Authority needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Authority will need to monitor developments close as the end of March approaches.

Planned Response

To gain assurance over this risk we are planning to:

- review the action taken to respond to our 2018/19 recommendations
- review the 2019/20 Outturn, including details of performance against both the Revenue and Capital Budgets
- review progress against the 2020-21 financial plan up to the completion of our audit; and
- obtain an update on the Authority's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date.

We will also consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.

VfM Significant Risks for 2019-20

OFSTED Inspection of Children's Services

Risk

Following the OFSTED Report in September 2017 in respect of the Authority's Children Services, which rated the service as 'Inadequate', the Authority is continuing to implement its action plan to deal with the issues raised by OFSTED.

We are aware that you were subject to reinspection by OFSTED in January 2020 and that you await the outcome of this inspection to validate the improvements that have been made by the Council since 2017. We will consider the outcome of this reinspection, and any further recommendations raised as part of our assessment of this risk.

Planned Response

To gain assurance over this risk we are planning to:

- review the progress made against the action plan, including resolving any challenges identified during the implementation of the action plan.
- consider the results of the follow up inspection undertaken by OFSTED in January 2020.
- consider the Authority's performance against its objectives and targets set internally to monitor the overall progress made in this area.

The Governance of the Authority's Alternative Delivery Models

Risk

The Authority's Alternative Delivery Vehicle, Brick by Brick Croydon Ltd, is moving into the phase where dividends are expected to be received by the Authority. As the Alternative Delivery Vehicle develops, the Authority needs to ensure the governance processes in place remain appropriate.

Planned Response

To gain assurance over this risk we are planning to:

- review the arrangements in place around Brick by Brick Croydon Ltd and the other existing Vehicles in which the Authority has an interest
- consider the governance arrangements in place for the Authority to gain the intended benefits from its subsidiary

VfM Significant Risks for 2019-20

Governance and Financing of the Council's Group Structures

Risk

During our work on the Public Interest Report, we identified several key governance failings in the areas mentioned, which included:

- The Council (including Cabinet and the General Purposes and Audit Committee) need to show a greater level of challenge when considering the Annual Budget and other finance papers prior to approval. This includes ensuring the assumptions underlying areas such as the Budget are reasonable and achievable based on the Council's previous track record.
- Cabinet and Council need to make sure the Treasury Management Strategy is given sufficient focus during the course of the year, including considering the ongoing affordability of the items included within the Strategy.
- Cabinet and Council need to review the ongoing financial rationale for the Council's investment in Brick by Brick to ensure that appropriate challenge and scrutiny is given in this area.
- Linked to the above, Cabinet and Council should also review its arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, the long-term impact on the subsidiaries on the Council's financial position and how the Council's and taxpayers interest is safeguarded.

Planned Response

To gain assurance over this risk we are planning to:

- Review the progress made in respect of the areas made since the issuance of our Public Interest Report, including considering changes implemented since the issuance of our Report.
- Consider the findings of the various Reports issued to the Council covering these areas which may help shape things moving forward.
- Determine whether any further recommendations need to be made in respect of these areas

The refurbishment of Fairfield Halls

Risk

In December 2020 management raised concerns over the refurbishment of Fairfield Halls which reopened in September 2019. The refurbishment was undertaken by the Council's wholly owned company, Brick by Brick. Concerns were raised relating to the award of the contract, how the Council oversaw the development and whether the final expenditure was correctly accounted for.

Planned Response

To review:

- The timeline of key decisions from contract award to completion
- The legal basis and decision-making process for the award of the work to Brick by Brick via a licence
- The Council's governance arrangements during the delivery phase
- The final level expenditure on the project

The condition of the Council's Housing Stock

Risk

In March 2021, a news investigation identified issues with the condition of some of the Council's Social Housing, which in cases were found not to be habitable by humans due to the level of mould, leaks and other issues present. In a number of cases, it was alleged that residents had been complaining to the Council since 2019 for repairs to be made but had received no tangible response in the 18 months to the date of the ITV News Report.

On the back of this Report, an independent review into the conditions in the Regina Road Tower Block was commissioned by the Council, which was undertaken by Ark Consultancy.

Planned Response

To gain assurance over this risk we are planning to:

- Review the detailed report received from Ark Consultancy, along with consideration of the issues identified within the Report.
- Consider the Council's response to the Report and issues identified, along with any action plan
- Determine whether any broader issues need to be considered as part of the overall review.

Detailed Findings

Public Interest Reports

Before discussing our findings in respect of each of the significant risks identified on the previous pages, we will summarise the findings of the two Public Interest Reports issued which relate to the 2019-20 financial year as these will provide a considerable level of context to the other issues identified.

Public Interest Report 1

Our first Public Interest Report was issued in October 2020, and was in respect of a range of failings which impacted the overall financial management of the Council. This report was followed by the Council issuing a Section 114 Notice in November 2020 as there was a £66 million gap in the Council's future Financial Plans which it recognised it was going to be unable to resolve without additional financial support.

This report produced 20 recommendations for the Council, eight of which were deemed to be high priority. These eight recommendations related to the following areas:

- Understanding the causes of Social Care overspends
- Challenging the Council's Reserves Assessment before approving the annual budget
- Ensuring that Transformation Funding has delivered its planned outcomes
- Members needing to provide robust challenge to the assumptions underlying the annual budget before it is approved
- The Section 151 Officer needing to undertake a detailed review of the Revolving Investment Fund, including whether the Council should continue with this arrangement
- Members need to reconsider the Treasury Management Strategy to ensure it remains affordable for the Council
- Members need to review the current arrangements in place around the investment in Brick by Brick.
- Members need to review its arrangements to govern the Council's interests in subsidiaries and their impact on the Council's financial position.

All recommendations were accepted by Full Council at the meeting held shortly after the issuance of the Report. The Council set up a working group to monitor the Council's responses to the recommendations, and regular update reports are provided to the Audit and Governance Committee (formerly the General Purposes and Audit Committee (GPAC)).

Public Interest Report 2

Our second Public Interest Report was issued in January 2022, and was in respect of a range of failings over the Council's management of the refurbishment of Fairfield Halls, which was redeveloped by the Council between June 2016 and September 2019. This report issued a further 12 recommendations, 7 of which were Statutory Recommendations which covered the following areas:

- Ensuring the Cabinet papers supporting the approval of major projects clearly set out the legal powers to enter into the arrangement, and how the Council can secure the 3 E's during the delivery of the project.
- The Monitoring Officer should ensure that appropriate documentation is in place before commencing a project and that this documentation is appropriately stored.
- The Monitoring Officer should also consider the need to share updated Legal Advice with Cabinet where this changes during the project
- The Section 151 Officer should ensure appropriate agreements are in place before making payments to 3rd parties.
- The Chief Executive should ensure that adequate records are kept so that the information supporting key decisions are maintained, and tolerances are established for reporting changes back to Cabinet.
- There is a need to ensure a clear distinction between the role and responsibilities of Officers and Members when dealing with subsidiaries, such as Brick by Brick.
- The Section 151 Officer should ensure the reporting on Capital Schemes is enhanced to enable sufficient and appropriate monitoring during the life of the scheme.

Again, all recommendations were accepted by Full Council shortly after the issuance of the Report and these again are being regularly monitored by the Audit and Governance Committee so performance against them can be readily monitored.

Detailed Findings

Significant Value for Money Risks

1. The Ongoing Financial Sustainability of the Council

As mentioned earlier in the Report, our first Public Interest Report was issued in October 2020, and was in respect of a broad range of failings which impacted the overall financial management of the Council. This report was followed by the Council issuing a Section 114 Notice in November 2020 as there was a £66 million gap in the Council's future Financial Plans which it recognised it was going to be unable to resolve without additional financial support.

2019/20 Outturn

In 2019/20, the Council delivered a small overspend of **£0.186 million** against its General Fund Budget, albeit this included additional costs of **£8.749 million** for unfunded Unaccompanied Asylum Seeker Children (UASC) costs, which has been a challenge for the Council for a number of years and is likely to remain the case moving forward. This in-year position meant that the Council maintained its General Fund Position at **£10.395 million**, which was a very low position given the Council's Gross Expenditure for the year was **£1.226 billion** and meant there was very little ability for the Council to manage even a small amount of unexpected cost pressures or slippage in savings delivery or income plans. The Council's need to issue its first Section 114 Notice in November 2020 demonstrate the weakness in arrangements.

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Aside from the UASC Costs mentioned above, there were a range of other significant overspends in year, which were covered either via the use of Transformation Funding or underspends in other parts of the Council. The main areas of overspend were largely related to Childrens and Adults Social Care, which included:

- Increased costs of External Children Placements - **£7.355 million**
- Increased costs of Social Care - **£3.414 million**
- Increased support packages for 25 to 65 Year Olds - **£2.848 million**
- Increased costs of SEN and Family Support - **£3.696 million**

These overspends were offset from several sources, which included the use of **£6.779 million** of flexible capital receipts in the form of transformation spend, an area subject to significant audit challenge. Other areas where underspends were delivered included:

- Additional Pay and Display and PCN Income - **£3.819 million**
- Improved Better Care Funding - **£2.0 million**

Despite the underspends and the use of transformation funding mentioned above, the Council's Departments overspent by nearly **£7 million**, and therefore further savings were required from the corporate centre to ensure a balanced position at year end. This balance came from three main sources, which were:

- Additional Section 31 Funding and London Pool Gains - **£3.531 million**
- Gains from the Revolving Investment Fund - **£1.873 million**
- Use of Contingency Funding - **£2.0 million**

Contingency funding is not a sustainable way for the Council to manage its finances, albeit the 2019/20 use of contingency funding was considerably lower than in the previous year. Contingency funding was required during 2019/20 due to shortfalls in the planned level of savings/additional income of which the key items were:

- **£2.2 million** was expected as a dividend from Brick by Brick Croydon Ltd
- A further **£2.5 million** of additional income was expected from the Council's Investment Properties
- Thirdly, the Council was expecting to save **£3.5 million** from reduced Pension Contributions after transferring some of the Council's Assets to the Pension Fund.

Our 2018/29 value for money conclusion was adverse and at that time we flagged the need for the Council to identify potential replacement schemes should planned savings or additional income schemes slip from the plan. In particular, the dividend from Brick by Brick has been included in the Council's draft Budget in each of the previous two years, despite this not being received due to the slow pace at which Brick by Brick had been able to complete developments. The Council should have been able to track the projected rate of Brick by Brick developments and identify for itself the likely slippage in delivering the budgeted dividend. The reduced pensions contributions were dependent on the Council transferring assets to the Pension Fund by the start of the financial year and again the Council was in a position to know that this had not been done and that the resulting savings would not be achieved. Key dependencies for the delivery of savings were known to the Council sufficiently early for alternative savings plans to be developed and we did not identify evidence of the Council doing this.

During 2019/20 we continued to review the Council's Financial Position where we identified concerns over the significantly improved financial position between Quarters 2 and 3, which was very out of line with the overall direction of travel at that point in time. The following table shows the movement in the projected overspend during the course of the year:

Detailed Findings

2019/20 Outturn Position	Q1 Forecast	Q2 Forecast	Q3 Forecast	Full Year Outturn
Level of Overspend	**-£9.4m**	**-£10.41m**	**-£2.4m**	**-£182k**

The headline explanations for the movement between Quarters 2 and 3 related to additional use of Transformation Funding which as a one-off measure was not sustainable over the longer term. Examples included:

- Highways costs recharged to Capital – moved from **£566k** to **£3.21 million** between Q2 and Q3
- Facilities Management and Support Services – an additional **£900k** was identified between Q2 and Q3 which could be capitalised
- A further **£1.751 million** was recharged to Croydon Digital Services during this period which again was effectively this being capitalised
- The Council also now accounting for **£4.1 million** of net interest from its financing, which had increased from **£1.724 million** at the end of Q2.

Despite challenging the basis of the improved forecast between January and March 2020 we were only provided with headline support rather than the detailed transaction listings we had requested. Later in the audit it became clear that the underlying transactions were not put into the general ledger until August 2020. It is important that the budget reports provided to Members are based on transactions within the ledger unless explicitly stated so that Members can be clear what has actually happened and what is planned action.

Our detailed work on the elements originally charged to expenditure that were recharged as transformation, found significant elements did not meet the definition of transformation expenditure and the Council was unable to justify their inclusion and we identified £9 million of errors within the transformation spend.

Whilst the Audit Findings Report comments on the required adjustments, there is a weakness in the arrangements the Council had in place to manage its financial position by utilising inappropriately options such as flexible use of capital receipts for transformation.

The full year outturn for 2019/20 reported to Members was an **£186k** overspend however the Audit Findings Report shows audit adjustments in excess of £140 million to correct errors in draft financial statements.

In addition to the ongoing challenges around the Council's financial position, the level of overspend in respect of the Dedicated Schools Grant (DSG) is of concern as this was **£14.5 million** at the end of 2019/20. The treatment of DSG overspends impacts other London Boroughs and a statutory override has been implemented from 2020/21 however for 2019/20 the overspend needs to be reported within the Council's balance sheet further worsening the overall position. The Council has agreed a recovery plan for the DSG deficit over a seven-year period which will need careful monitoring to deliver.

2020/21 Budget

The 2020/21 budget was set at the Cabinet Meeting in February 2020, and planned to deliver the Council a small surplus of around £200k, including the contribution of **£5.0 million** to Reserves, which effectively means the plan is to deliver a **£5.2 million** surplus before the transfer to Reserves takes place. A summary of the budget by Department can be seen in the table below:

Department	Income and Savings	Cost Growth	Net Position
Children's, Families and Education	(£8.207m)	£10.112m	**£1.985m**
Health, Wellbeing and Adults	(£16.194m)	£21.237m	**£4.728m**
Place	(£9.946m)	£6.799m	**(£2.573m)**
Resources	(£6.082m)	(£7.205m)	**£0.964m**
Corporate	(£24.875m)	£19.771m	**£1.985m**
Totals	**(£65.304m)**	**£65.124m**	**(£0.180m)**

Detailed Findings

As part of our initial review of these plans, we identified concerns over optimistic assumptions that included savings targets significantly greater than previously achieved, and unrealistic income assumptions including an increase in the Brick by Brick dividend of **£3.0 million** despite no previous dividend having been received and income growth of **£4.0 million** from Investment Properties, which we considered optimistic prior to the covid-19 pandemic.

As 2020/21 progressed, even allowing for the impact of the covid-19 pandemic, a number of the savings plans remained undelivered with the underlying arrangements being the key cause. One example was the increase in income from car parking included within the budget which was predicated on the Council increasing the charges payable. This was agreed in November 2019 however by March 2020, the fees had not been changed at any car park and therefore the action to implement a planned and agreed savings plan was undelivered. This is a weakness in the underlying arrangements prior to the covid-19 pandemic.

Our review in February and March 2020 found that the detail to support the planned savings and income growth was inadequate in that there was very little detail as to how these savings or additional items of income were to be identified. In our view this impacted the deliverability of the financial plan. The savings proposed for the 2020/21 budget were almost double the savings delivered in previous years and there was very little evidence that a savings plan of this size and scale was deliverable by the Council.

We expressed our concerns to management in late March 2020 and wrote to then Chief Executive in April 2020 who implemented revised arrangements to address the financial position. Ultimately the pace of change was not sufficient and we issued our Public Interest Report in October 2020 raising a number of concerns including relating to financial sustainability with the Council issuing its first section 114 notice in November 2020.

Our value for money conclusion is qualified in respect of the financial sustainability.

Detailed Findings

2. OFSTED Inspection of Children’s Services

As trailed in the introduction to the Report, the Council’s Children Services were rated as ‘Inadequate’ by OFSTED in September 2017. Since that date, the Council had been working through the Action Plan that was agreed in the aftermath of the review in order to improve the level of services from that position. However, all parties accepted that formal validation of the progress made could only be seen via a formal reinspection by OFSTED, which took place in January 2020.

Following the subsequent re-review of Children’s Services by OFSTED in January 2020, they moved the rating of the Council’s Services to ‘Good’ overall, which was a significant improvement from the previous position. The OFSTED summary of the reinspection visit was as follows:

‘Children’s services in Croydon have improved dramatically since the last inspection in 2017, when they were judged to be inadequate. Services for children and their families have been transformed as a result of strong corporate and political support, substantial investment, and the appointment of highly experienced senior managers. The current executive director for children, families and education and the director of early help and children’s social care were appointed towards the end of 2018. Building on the changes that had already been made, they quickly grasped the full extent of the improvements that were required, and they have systematically and effectively tackled the weaknesses.

Services for children in need of help and protection are now good, and services for children in care and care leavers are improving well. Senior managers have ensured that they are well informed about the quality of services through performance management information and directly engaging with frontline staff. They are fully aware of the areas that still require improvement and demonstrate a relentless determination to deliver high-quality services to all children in Croydon. They have created an environment in which staff feel valued and enjoy working in the borough.’

Despite this positive output, OFSTED did highlight a few areas which the Council needs to work on further, which include:

- The quality of written plans for children in need, children in care and care leavers.
- Services provided to homeless 16- and 17-year-olds.
- Services for care leavers, particularly the range of suitable accommodation, responses to emotional health needs and preparation for independence.
- Placement sufficiency for children in care, and accommodation for care leavers.

Despite these findings, it is clear that the Council had made improvements in this area and we have not qualified our value for money conclusion in respect of Children’s Services in 2019/20.

Detailed Findings

3 and 4. The Governance of the Authority's Alternative Delivery Models and Governance and Financing of the Council's Group Structures

As mentioned in the first Public Interest Report, we expressed concerns over the arrangements in place around the Governance of Brick by Brick (BBB) Croydon Ltd, as the delay in delivering planned dividends by BBB was impacting the Council's financial position. Our initial enquiries raised further areas of concern.

Firstly, from an accounting perspective, we identified the accounting treatment for new and innovative schemes was not considered sufficiently when the arrangements were entered into. This had been reported in previous years and meant that the finance team were developing the accounting treatment as part of preparing the draft financial statements and found it challenging to be able to respond to our audit queries. Linked to this, we identified that when the Council set up Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP, the accounting treatment was predicated on the Council not controlling the entities however all transactions remained on the Council's General Ledger, which has made it difficult for the Council to get a full picture of its own financial position or of the financial position of these entities. The Council also continued to hold cash balances on behalf of its subsidiaries, some of which have been held within the Council's own cash. This raised concerns over whether the Council in reality controlled the entities where the proposed accounting treatment was predicated on the independence of the entities. Ultimately our challenge of the accounting treatment of two key elements, Croydon Affordable Homes and Croydon Affordable Tenures, delayed the audit and resulted in material adjustments.

Secondly, we identified during the audit that the Council had failed to monitor the filing requirements with Companies House and one of its wholly owned companies, the London Borough of Croydon Holdings LLP, was struck off at Companies House in December 2019. This meant that all of the assets owned by the LLP at the time, reverted to the Crown in absentia. The Council was able to apply for the LLP to be reinstated, which was not completed until February 2021 and this enabled the assets to be returned to the LLP. There have been other instances of filing dates being missed and reflects a lack of rigour and control over this area. We have also identified occasions where subsidiaries have been set up but key members of staff within the Council are not aware of them, which again shows a lack of rigour around setting these types of bodies up and the ongoing monitoring of them.

Thirdly, as evidenced by some of the challenges referred to within our Public Interest Report, there has been a lack of challenge and consideration of reports relating to the Council's subsidiary holdings when presented to Members. This is particularly concerning given these Committees are tasked with the oversight of these bodies, and we would expect to see a greater level of rigour and discussion when these reports are shared. We have observed instances of this during the course of 2019/20, when papers relating to BBB, such as its Annual Report and Accounts, have been effectively approved with very little discussion or comment despite the financial challenges that BBB finds itself in.

Ultimately the Council needed to review all of the subsidiaries that were currently in place, and determine the ongoing rationale for each of these to determine whether the subsidiaries continue to deliver the intended benefits and consider closing subsidiaries that are no longer in use. Our value for money conclusion is qualified in respect of governance of group structures.

The Council commissioned its own review of these arrangements in 2021 and further action has been taken which has been reported in the Interim Annual Audit Reports for 2020/21 and 2021/22.

Detailed Findings

5 Refurbishment of Fairfield Halls

In December 2020, management raised concerns with the auditor regarding the refurbishment of Fairfield Halls. Fairfield Halls is a Council owned entertainment venue that was closed for refurbishment which reopened in September 2019. The refurbishment was passed to the Council's wholly owned company, Brick by Brick. Concerns were raised relating to the award of the contract, how the Council oversaw refurbishment and what the final expenditure was.

Ultimately our findings were sufficiently significant to lead to our second Public Interest Report issued in January 2022. The summary of the findings are on page 8 of this report.

Our value for money conclusion is qualified in respect of the arrangements for the refurbishment of Fairfield Halls.

6. The Condition of the Council's Housing Stock

As mentioned in the introduction to this report, we were alerted to concerns with the Council's Housing Stock via an news investigation into appalling living conditions of the residents of Regina Road, South Norwood, in March 2021. This investigation set out the condition of some of the Council's Social Housing, which in cases were found not to be habitable by humans due to the level of mould, leaks and other issues present. In a number of cases, it was alleged that residents had been complaining to the Council since 2019 for repairs to be made but had received no tangible response in the 18 months to the date of the investigation.

On the back of the investigation, the Council engaged Ark Consultancy Limited to review the flats covered by the investigation to determine how things had been left to deteriorate to such a level, along whether these issues were caused by wider concerns with the Council's Housing function. The report from Ark was produced in May 2021, and identified there was no single reason that caused the issues at Regina Road. However they identified that there was a range of operational issues across the Council, and its Contractor, which led to a failure to deliver even the 'core' housing services effectively. It was felt that these issues were symptomatic of poor performance across the whole housing service and its ability to improve moving forward. These issues were:

- A lack of capacity and competence;

- A poor operating culture with a lack of care and respect for tenants;

- Systemic problems in how the Council communicates and deals with tenants' concerns and complaints;

- Weak performance management meaning senior managers do not appear to know what is going on; and

- Poor use of data and 'intelligence' by the Council and its contractors.

On the back of the Ark report, and its findings, the Council set up a Housing Improvement Board who were tasked with monitoring the Council's responses to the recommendations from the review. The Board includes Council resident representatives and an independent chair, and holds regular meetings in public to examine the council's housing services, both in terms of resident satisfaction and overall performance. One of the first things the Board has looked to do is to produce a Housing Improvement Plan, albeit this had yet to be formally approved in early 2022.

Despite these steps, concerns were raised within the Council in early 2022 that none of the immediate actions identified by ARK had yet to be implemented, almost a year after the Council was notified of these. Whilst we appreciate it takes time to set up and embed these new structures into the organisation, we would have expected progress to be made on these areas of immediate concern already and is something that the Council needs to get to work on in a timely manner whilst trying to improve some of the longer-term issues identified by from the review.

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Appendix 3

The Audit Findings Report for the London Borough of Croydon Pension Fund

Year ended 31 March 2020

30 November 2023

Contents

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Croydon Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. This has had an impact on both the front-line services operated by the Council, along with those people who work behind the scenes, who have had to get used to a new way of working as the pandemic has progressed.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We presented our Audit Plan to the General Purposes and Audit Committee on 9 March 2020. We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 24 November 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both the council's finance team and our audit team have had to adapt to remote working arrangements. Your finance team was well set up for remote working and there were no changes in key financial processes that impacted on our approach to your audit. Both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch your finance team run the required reports to gain assurance over completeness and accuracy of information produced by you. We have made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries has taken a little longer than face to face discussion. Regular meetings were held with the finance teams to highlight key outstanding issues and findings to date. We have used a query log to track and resolve outstanding items; ensuring that the process was as smooth as possible.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:

- give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely between October 2020 and July 2021. Our findings are summarised on pages 4 to 11. To date we have not identified any adjustments which impact on the Net Assets of the fund available to fund benefits reported in the draft Accounts. Some minor adjustments have been identified in respect of some of the disclosures in the Accounts, which are documented in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (attached at Appendix D) or material changes to the financial statements, subject to the following outstanding matters;

- completion of our outstanding testing (refer to Page 4 for more detail);
- our final internal quality reviews;
- receipt of management representation letter; and
- review of the final set of financial statements.

Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainty disclosed in respect of the valuation of your investments in Direct Property. An Emphasis of Matter paragraph is not a qualification.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

2. Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 24 November 2020, to reflect our response to the Covid-19 pandemic. This included the identification of a new Significant Risk relating to Covid-19, which has been detailed on page 6 of this Report.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the General Purposes and Audit Committee meeting on 24 August 2021, as detailed in Appendix E. These outstanding items include:

- completion of our outstanding testing in the following areas: Investments – focusing on Direct Property and Fund Manager Control Reports Review and Leavers Testing,
- our final internal quality reviews;
- receipt of management representation letter; and
- review of the final set of financial statements.

2. Materiality

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been updated from those reported in our Audit Plan to reflect the 2019-20 Draft Accounts, and the updated values are shown below.

	Pension Fund Amount (£) – Planning	Pension Fund Amount (£) – Final Accounts	Qualitative factors considered
Materiality for the financial statements	12,582,000	12,568,000	Our Headline Materiality is based on the prior year Gross Revenue Expenditure included in the Accounts.
Performance materiality	9,436,000	9,426,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	629,000	628,000	Triviality is based on a percentage of the overall materiality.

2. Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that. quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have undertaken the following work in respect of this risk: • Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic, including management’s assessment of the impact of Covid-19 on forecast cashflows. • Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely. • Evaluated whether sufficient audit evidence could be obtained to corroborate management’s fair value hierarchy disclosures. • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property. • Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence. From the work performed to date, we have identified that there is a material uncertainty attached to the valuation of the Council’s Illiquid Assets, due to the inherent uncertainty over the asset valuations at 31 March 2020. This has been reflected within the Accounts in Note 5, and will be reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. Should any further issues be identified from our remaining testing, then we will provide an update to Management and Committee.

2. Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, 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 the London Borough of Croydon, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for the London Borough of Croydon Pension Fund.	We have undertaken the following work in respect of this risk: • reviewed and tested the Pension Fund's revenue recognition policies; and • performed testing on material revenue streams Our audit work has not identified any significant issues in relation to the risk identified.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have undertaken the following work in respect of this risk: • evaluated the design effectiveness of management controls over journals. • analysed the journals listing and determined the criteria for selecting high risk unusual journals. • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any significant issues in relation to the risk identified.

2. Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of Level 3 Investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£438 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have undertaken the following work in respect of this risk: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requested year-end confirmations from investment managers and/or custodian(s) • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period and • in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert • where available, we have reviewed the investment manager service auditor report on design effectiveness of internal controls. From the work performed to date, as mentioned earlier we have identified that there is a material uncertainty attached to the valuation of the Fund's Illiquid Assets, due to the inherent uncertainty over the asset valuations at 31 March 2020. This has been reflected within the Accounts in Note 5, and will be reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. Should any further issues be identified from our remaining testing, then we will provide an update to Management and Committee.
Transfer of Properties from the Council to the Pension Fund During the course of the year, the Council will have transferred senior head leases for 346 houses into the Pension Fund. These lease arrangements are in effect directing rental streams for a further 40-year period into the Council's Pension Fund, with the leases expiring between 2057 and 2059. As a result of this arrangement, the Council is seeking a reduced contribution rate which would be set by the Council's Actuary, Hymans Robertson LLP.	During the course of our work in this area, we identified that this transaction had not taken place during the course of the 2019/20 or the 2020/21 financial year. On the 25th May 2021 the proposed approach was formally withdrawn by the Pensions Committee and therefore there is no impact on the 2019/20 Statement of Accounts.

2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in Pooled Property Investments, Private Equity and Infrastructure Funds that in total are valued on the Net Asset Statement as at 31 March 2020 at **£459 million**. These investments are not traded on an open exchange/market and the valuation of these investments is highly subjective due to a lack of observable inputs. In order to determine the values, management rely on the valuation provided by the Fund Manager, which are usually based on an audited value of the fund as at 31 December 2019, with the valuation then rolled forward to March 2020, considering any cash movements which have taken place in the intervening period. These are new investments for the Fund in 2019-20.	• Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 3 valuations included within the Accounts. • However, within this work we have identified that there is a material uncertainty attached to the valuation of the Council's Level 3 Investments, due to the inherent uncertainty over the asset valuations at 31 March 2020. This has been reflected within the Accounts in Note 5, and will be reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. • We have, on a sample basis, reviewed the basis on which the valuation of the Funds/Investments has been prepared, and where appropriate, considered the Audited Accounts of the Funds/Investments as well. To date, no issues have been identified from the work performed in this area.	● Green
Level 2 investments	The Pension Fund have investments in Fixed Interest Funds and Pooled Global Equities Funds that in total are valued on the Net Asset Statement as at 31 March 2020 at **£715 million**. Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments will be based on the value of these underlying investments at 31 March 2020, or the closest trade date to year end. The valuation of these investments has decreased by **£83 million** from their value at 31 March 2019 **(£798 million)**, which is largely down to a change in the Fund's investment focus in this period during the course of the year.	• Based on the work performed to date, we have been able to obtain sufficient assurance over the Level 2 valuations included within the Accounts. • We have undertaken full triangulation of the closing valuations provided by the relevant Fund Managers to the values provided by the Fund's Custodian, and considered any significant variances identified from this work. No issues have been identified from the work performed in this area.	● Green

Assessment

● - Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

● - Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

● - Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

● - Green - We consider management's process and key assumptions to be reasonable

2. Other matters for communication

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	Auditor commentary
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 other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Pension Fund which is included in the General Purposes and Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Pension Fund's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Pension Fund during the year. All responses have been received and no issues have been identified.
Disclosures	Our review identified a small number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.
Audit evidence and explanations/significant difficulties	The Pension Fund produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to the delays in the completion of our work on the Accounts we have not yet completed our work on the Annual Report. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to 24 August 2021.

Follow up of prior year recommendation

We identified the following issue in the audit of the London Borough of Croydon Pension Fund's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings Report, which we considered further in 2018/19 and noted that the issue had not yet been resolved. We have since followed up further on the implementation of our recommendation and note that this area has now been resolved.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Statutory Notifications for New Members** In the previous year we identified from our controls testing that the statutory notifications of joining the scheme had been sent to two new starters who joined the scheme in April and September 2017 respectively. The reason that the notifications were not sent were because the individuals in question were employed via external payrolls and the payroll providers in question had not notified the Council that they had joined the scheme.	From the Member Data Testing performed in 2018/19, we identified another two starters for whom we were able to confirm that they were valid starters but had not had the appropriate notification sent out to them upon joining the Scheme. Thus, this recommendation was rolled forward to the 2019/20 Accounts Audit. From the testing performed in 2019/20 we tested a sample of starters of new members and agreed back to supporting evidence to confirm that the individual subject to testing had joined the pension scheme in the financial year. We have not identified any instances of statutory notifications not being sent to the individual joining the scheme from testing performed and are therefore satisfied the control weaknesses previously identified has been resolved within the 2019/20 financial year.

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Assessment

✓ Action completed

X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted and unadjusted misstatements

No adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements

Disclosure omission	Value (£000)	Impact on the Accounts	Adjusted?
Note 15 – Fair Value Hierarchy	31,803	The initial disclosure of Level 3 Investments excluded the Fund's Investment in Infrastructure Funds, which were new in 2019-20. These investments have subsequently been included in the disclosures in the revised Accounts.	✓
Various Notes	Various	A number of minor presentational and disclosure amendments have been made to the Accounts to enhance the transparency of the disclosures within the Accounts.	✓

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Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
Pension Fund	25,000	TBC
Total audit fees (excluding VAT)	**£25,000**	**TBC**

The fees reconcile to the financial statements.

No non-audit or audited related services have been undertaken for the Pension Fund.

Audit Opinion

We anticipate we will provide the Pension Fund with an unqualified audit opinion with an Emphasis of Matter Paragraph

Independent auditor's report to the members of the London Borough of Croydon on the pension fund financial statements of the London Borough of Croydon Pension Fund

Opinion

We have audited the financial statements of the London Borough of Croydon Pension Fund (the 'pension fund') administered by the London Borough of Croydon (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Interim Director of Finance, Investment and Risk and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Interim Director of Finance, Investment and Risk's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Interim Director of Finance, Investment and Risk has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Interim Director of Finance, Investment and Risk's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 5 to the financial statements, the ongoing impact of the COVID-19 pandemic has created even greater uncertainty in establishing the asset values

Audit Opinion

We anticipate we will provide the Pension Fund with an unqualified audit opinion with an Emphasis of Matter Paragraph

of illiquid assets. It should be noted that at the reporting date 36.5% of the Fund's assets are illiquid. Our opinion is not modified in respect of this matter.

Other information

The Interim Director of Finance, Investment and Risk is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Interim Director of Finance, Investment and Risk and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 11, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim Director of Finance, Investment and Risk. The Interim Director of Finance, Investment and Risk is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Interim Director of Finance, Investment and Risk determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Interim Director of Finance, Investment and Risk is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The General Purposes and Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting

Audit Opinion

We anticipate we will provide the Pension Fund with an unqualified audit opinion with an Emphasis of Matter Paragraph

process.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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 Authority's 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.

[Signature]

Sarah Ironmonger, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
London
[Date]

Appendix 1

Audit and Governance Committee

Gas Safety Compliance

Mobilsation of New Contractor

Challenges

- Reduced mobilisation period, due to 1st placed contractor withdrawing
- 38% of annual gas safety checks due in first quarter of Year 1 of contract.
- Coincided with bringing Repairs Contact Centre in House

Positives

- Collaborative working from the start
- ICT interface from commencement
- Reviewed and updated Letters 1 to 4 in the gas escalation process
- QR Code added to letters 1 &2 to provide an additional appointment management .

Post Commencement

Priorities

- Gas Safety
- Heating Repairs
- Customer contact and appointment management
- Safeguarding
- Continuous Improvement opportunities

Current Position

Gas Safety

- Letter 3 – Improving resident response.
  - ➢ 50 additional appointment per week including 10 on Saturdays

- Letter 4 - Forced Entries – Commencing 22 Nov.
  - ➢ Forced Entries 24 per week & capacity to increase if required.

- Target
  - ➢ 99%+ compliance by Christmas
  - ➢ 99.5%+ by end Jan.
  - ➢ 100% by end of March

Current Position

- Customer Contact
- High level of contact and activity
  - ➢ Satisfaction dipped in August but recovered in September

- Safeguarding
  - ➢ Maintaining a high level of focus on safeguarding throughout

- Continuous Improvement opportunities
  - ➢ Increased focus on service improvement opportunities in New Year.

Current Position

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- High level of contact and activity
  - ➢ Satisfaction dipped in August but recovered in September

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  - ➢ Increased focus on service improvement opportunities in New Year.

Resident Satisfaction

Transition from Previous to Current Provider

Yellow = previous provider
Blue = new provider

1. Slight drop in performance in first month of new contract.
2. Arguably performance in September was in line or better than last month of previous provider
3. Residents did experience a high level of texts and visits while we attempted to recover compliancy.

Strong satisfaction despite the many challenges at contract commencement.

Opportunity to allocate more time to service improvement in New Year.

No.	Key Performance Indicator	July	Aug	Sept	Oct
1	Overall satisfaction	95%	81%	96%	
2	Appointments Kept	97%	85%	92%	
3	Polite & helpful	99%	98%	99%	
4	Clean & tidy	99%	98%	98%	
5	Satisfied with the service	97%	96%	100%	
6	Showed ID	99%	95%	99%	
7	Received a copy of safety check	82%*	84%#	89%	

* *Due to previous performance on this KPI LB Croydon had sent out copies of all safety checks in addition to Provider, so performance would have been lower, as would the overall performance .*

\# *Performance achieved without LB Croydon sending out copies of safety checks.*

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LONDON BOROUGH OF CROYDON

REPORT:		Audit and Governance Committee
DATE OF DECISION		30 November 2023
REPORT TITLE:		Revenue and Capital Monitoring Improvements
CORPORATE DIRECTOR		Jane West Corporate Director of Resources (Section 151 Officer)
LEAD OFFICER:		Allister Bannin, Director of Finance (Deputy S151)
LEAD MEMBER:		Cllr Jason Cummings, Cabinet Member for Finance
KEY DECISION?	No	Reason: N/A
CONTAINS EXEMPT INFORMATION?	No	Public Grounds for the exemption: N/A
WARDS AFFECTED:		All

1 SUMMARY OF REPORT

1.1 This report provides an update on progress against the recommendations from two external reviews:

- The Opening the Books reports by Worth Technical Accounting Solutions in February 2023, and
- The Capital Framework Improvement Plan by PWC in January 2023.

2 RECOMMENDATIONS

The Audit and Governance Committee is recommended to:

2.1 note the update on progress against recommendations from the Opening the Books external review, as detailed in Appendix 1.

2.2 note the Capital Framework Improvement Plan, attached as Appendix 2.

2.3 note the update on progress against recommendations from the Capital Framework Improvement Plan, as detailed in Appendix 3.

2.4 note that a further update to Audit and Governance committee is planned for April 2024 which will include a prioritisation of outstanding actions at that time.

3 REASONS FOR RECOMMENDATIONS

3.1 The Opening the Books – Reports from Worth Technical Accounting Solutions report was presented to Cabinet on 22/2/23 and the Executive Mayor in Cabinet (1) accepted and referred the Worth Technical Accounting Solutions reports to the Audit and Governance Committee for debate and (2) requested that the Audit and Governance Committee monitor the implementation of the recommendations from the reports. For member's ease of reference, the full reports can be accessed at https://democracy.croydon.gov.uk/ieListDocuments.aspx?CId=183&MId=2990

3.2 The Capital Framework Improvement Plan from PWC in January 2023 provides recommendations based on good practice to support the Council's aim to improve governance, management and monitoring of the Capital Programme.

4 BACKGROUND AND DETAILS

Opening the Books

4.1 The Opening the Books project was launched by the Mayor in July 2022 to improve the Council's understanding of current financial risks and to work towards a sustainable financial future. The project had a number of facets including the commissioning of a series of reviews by Worth Technical Accounting Solutions. The resulting reports were presented to Cabinet on 22/2/23 with the recommendation that the Audit and Governance Committee be asked to debate them and requesting that the Committee monitor the implementation of the recommendations.

4.2 The recommendations made by Worth TAS were accepted by officers in their entirety. Following the report to Cabinet, this Committee considered and debated the reports and agreed to receive monitoring reports providing updates on progress against the recommendations. Officers were also requested by the Committee to ensure that future monitoring reports would include prioritisation of the recommendations. Appendix 1 of this report provides an update on progress against the recommendations. Prioritisation has not been shown in Appendix 1, however this will be included in the update to this Committee in April 2024 on outstanding actions at that time.

4.3 In relation to training to support improvements across the Council, the Council commissioned CIPFA to provide training to over 300 budget holders in 2022 and to provide Housing Revenue Account (HRA) ringfence and recharge training to officers and Councillors in June 2023.

4.4 Ongoing improvements will be supported through the Oracle Improvement Project and the Strategic Finance restructure. The restructure reviewed the capacity and skill levels required in the accountancy function and identified required growth of £0.5m in the revenue staffing budget which has been requested through the proposed 2024-25 budget currently under engagement with residents and local businesses.

4.5 The format and content of the monthly financial performance reports has been reviewed and improved in 2023 and is expected to continue in the current format for the remainder of this 2023-24 financial year. The format and content will be reviewed on an annual basis going forward.

4.6 The frequency of reporting monthly to Cabinet is not common practice for London boroughs with the majority reporting on a quarterly basis. The level of frequency is time consuming for service and finance staff, however it recognises the recent financial challenges of the Council and the Mayor's aim for transparency and openness as stated in the Mayor's Business Plan Priority 4 "Ensure good governance is embedded and adopt best practice. The Council must learn the lessons of past failures and embed sound governance processes to ensure that decision-making is transparent, open and honest. These must ensure effective control of our projects and programmes and encourage meaningful scrutiny and challenge".

4.7 The Council does need to focus its efforts in April and May of each year for accurate and timely closing of the Council's annual accounts and therefore, officers are proposing that a Period 1 narrative financial performance report is not prepared in future years. It should be noted that a Period 1 budget monitoring report is not common practice across London boroughs.

Capital Framework Improvement Plan

4.8 In November 2022 PWC was commissioned to support the Council in developing its Capital Strategy which was updated for 2023-24. In parallel, a high-level current state assessment was undertaken, reviewing existing capital framework documentation against good practice, as set out in CIPFA's 2021 Guidance (Capital Strategy Guidance: A Whole Organisation Approach), and through liaison and discussion with key Council stakeholders. This process enabled the identification of key areas for development and improvement as articulated in a set of recommendations and an indicative high-level implementation plan.

4.9 The Capital Framework Improvement Plan is attached as Appendix 2. The Capital Internal Control Board (CICB) is leading on the improvements identified in the plan and an update on progress against the recommendations is attached as Appendix 3.

4.10 Improvements have been made to capital budget monitoring in 2023. Project status update forms were implemented at the beginning of 2023-24 for monthly completion by capital project leads. These are consolidated by the corporate finance capital accountant and presented to the monthly CICB meetings alongside the spend to date and forecast position, to allow consideration of risks and slippage. The CICB also uses these to identify capital projects on a risk-based approach, which they request deep-dives on, with the project leads asked to attend CICB and present an update on their specific projects.

4.11 Capital monitoring has also been harmonised with revenue budget monitoring, to ensure consistent timelines and consolidation of information for both revenue and capital to be taken to Directorate Management Teams (for consideration at the same meeting) for integration into the monthly financial performance reports.

4.12 The Verto project management system is being implemented on an "agile" (incremental) basis across the Council. Capital projects are being added to the system, alongside system training for the project leads, and the CICB is monitoring progress of the roll-out. It is expected that once the roll-out is complete, then reporting from Verto will replace the monthly project status update forms.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 None.

6 CONSULTATION

6.1 None.

7. CONTRIBUTION TO COUNCIL PRIORITIES

7.1 This report supports the Mayor's Business Plan 2022-2026 objective one "The council balances its books, listens to residents and delivers good sustainable services".

8. IMPLICATIONS

8.1 FINANCIAL IMPLICATIONS

8.1.1 Financial issues identified through the "Opening the Books" external review were taken into account for the 2023-24 budget setting process and for updates to the Medium Term Financial Strategy (MTFS).

8.1.2 Recommendations from the "Opening the Books" and Capital Framework external reviews have been agreed in full, and this report serves to provide an update on progress against these recommendations.

8.1.3 Work will continue to make and embed improvements, including in governance frameworks, processes and procedures, structural organisation, IT systems and training. Any funding (above existing revenue and capital budgets and the Opening the Books earmarked reserve) required to support improvement work will be requested/agreed through the appropriate governance routes in the Council.

Comments approved by Allister Bannin, Director of Finance (Deputy s151 Officer).

8.2 LEGAL IMPLICATIONS

8.2.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that the Audit and Governance Committee is required by its terms of reference to monitor the effective development and operation of the Council's risk management arrangements, the control environment and associated strategies, actions and resources, and to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment. The Committee is also responsible for overseeing the financial reporting and annual governance processes and providing independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment.

8.2.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk.

8.2.3 Separately, the effectiveness of the Council's internal control environment has a direct impact on the Council's ability to deliver its functions in a manner which promotes economy, efficiency and effectiveness. Therefore, the consideration of this report also seeks to demonstrate the Council's compliance with its Best Value Duty under the Local Government Act 1999.

Comments approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Legal Services and Monitoring Officer, 24/11/2023.

8.3 HUMAN RESOURCES IMPLICATIONS

8.3.1 There are no immediate workforce implications arising from the content of this report.

Approved by Dean Shoesmith, Chief People Officer, 23/11/2023.

8.4 EQUALITIES IMPLICATIONS

8.4.1 The Council has a statutory duty to comply with the public sector equality duty set out in section 149 of the Equality Act 2010. The Council must therefore have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.

- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

8.4.2 Assessing the impact of proposed changes to policies, procedures, services and organisational change is not just something the law requires; it is a positive opportunity for the council to ensure it makes better decisions, based on robust evidence.

Comments approved by Naseer Ahmed for Equalities Programme Manager, 22/11/2023.

9. APPENDICES

9.1 Appendix 1 - Opening the Books Recommendations Tracker

Appendix 2 - Capital Framework Improvement Plan

Appendix 3 - Capital Framework Improvement Plan Recommendations Tracker

10. BACKGROUND DOCUMENTS

10.1 None.

Appendix 1 - Opening the Books Recommendations Tracker

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
1.	A more comprehensive process for identifying current and expected financial pressures should be implemented, to take account of: • future spending pressures • key budget assumptions affecting grant funding and taxation income, • historical accounting issues • expected levels of General Fund reserves and working balances • MRP and interest implications of any new Capitalisation Directions (CDs) approved.	Director of Finance	Assurance meetings are underway - a monthly budget assurance process and independent challenge of expenditure takes place. This is in addition to Cabinet and Scrutiny & Overview Committee review. The assurance meetings provide the Corporate Director of Resources (Section 151 Officer) and the Chief Executive with an opportunity to scrutinise and challenge the forecast outturn, review risks and opportunities, and ensure that savings are delivered and income targets are met. The meetings ensure the Council is doing all it can to reduce overspends and deliver a balanced budget. Two sets of Star Chamber meetings have taken place in 2023 (July and September) for 2024-25 budget setting. These have allowed the Mayor, Deputy Mayor and Cabinet Member for Finance to scrutinise directorate and corporate budget assumptions and pressures for revenue and capital. Historical accounting issues have been dealt with, redrafting the 2019-20 accounts and the updated accounting treatments will be fed through the following years' accounts. General Fund working balances of £27.5m are being maintained. Other reserves balances are being updated as we work through redrafting the prior years' accounts. MRP and interest implications of Capitalisation Directions have been refreshed and incorporated into the Medium Term Financial Strategy (MTFS).	**Complete**
2.	New and emerging financial pressures identified from R1 above should be reported to members as part of budget monitoring reports, together with a summary of their expected impact on future General Fund balances. This information should help to inform consideration of the Council's overall financial position and any potential requirement for further Government support.	Corporate Director of Resources	Growth was added to 2023-24 directorate budgets to meet known pressures. The 2023-24 budget also included £7.3m budget held in Corporate for adjustments to correct General Fund recharge budgets for recharges to the Housing Revenue Account (HRA), Public Health, capitalisation of salaries and corporate support (overhead) recharges. This budget will be allocated during 2023-24 through the monthly financial performance reports as the service level agreements (SLA's) are finalised for HRA and Public Health recharges, and when the review of salary capitalisation and corporate support recharges is finalised. Financial pressures are reported through the monthly financial performance reports and are being considered for the 2024-25 budget and MTFS.	**Complete**
3.	If the CD adjustment in the financial statements is significantly different from the amount set out in the Direction for that financial year, the Statement of Accounts should explain why.	Director of Finance	To be picked up as the prior year accounts are prepared/finalised.	**To be progressed**
4.	As CD adjustments represent material items of account they should be separately identified in the Movement in Reserves Statement and the material items note.	Director of Finance	To be picked up as the prior year accounts are prepared/finalised.	**To be progressed**
5.	The accounting treatment adopted for material CD adjustments should be set out in accounting policy disclosures.	Director of Finance	To be picked up as the prior year accounts are prepared/finalised.	**To be progressed**
6.	Disclosure notes which reference the CD should be internally consistent.	Director of Finance	To be picked up as the prior year accounts are prepared/finalised.	**To be progressed**
7.	The Council's Treasury Management Strategy should be more transparent about: • how forecast capital receipts are being used to finance different types of capital expenditure • how CDs are funded, and • how MRP charges are being calculated.	Head of Pensions and Treasury	Further improvements will continue in future years' Treasury Management Strategy (TMS) reports. The TMS and its associated mid-year and outturn reports include details of the funding sources used to finance the capital programme. For 2023-24 and the next two years, capital receipts are to be used almost entirely to finance the capitalisation directions and this is made clear in the tables in the reports. Please see comment on Minimum Revenue Provision (MRP) charges included under recommendation 8 below.	**Underway**

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
8.	Detailed MRP calculations should be consistent with Treasury Management and budget reports.	Head of Pensions and Treasury	The Head of Pensions and Treasury liaises with the accountants working on the budget reports to ensure consistency. The TMS includes as an appendix the Council's MRP Policy and the detailed calculations are consistent with this Policy. The TMS and associated treasury management reports include the latest available MRP calculations, including those in the most recent Statement of Accounts (Capital Expenditure and Capital Financing note) and in current and medium term budgets.	**Complete**
9.	The Council is prioritising the use of capital receipts to fund current and future CDs and has recently approved a more ambitious asset disposal strategy to generate additional capital receipts. However, future budget forecasts and financial modelling may need to reflect the fact that if sufficient capital receipts are not generated within anticipated timescales, any CDs not funded from capital receipts would attract MRP at 5% for the next 20 years.	Director of Finance	Dialogue is continuing with the Department for Levelling Up, Housing and Communities (DLUHC) about options to resolve the cost of borrowing pressures from legacy debt. Current forecasts for capital receipts are meeting the budgeted timing and amount of receipts, however this will need to be reviewed annually as part of the budget setting and MTFS process.	**To be progressed**
10.	Improvements to the processes that support budget planning and management in adult social care services should be prioritized, to embed a consistent knowledge and use of systems; therefore minimizing inconsistent datasets, to better support service management and budget setting.	Director of Finance	Adult social care services have implemented transformation and improvement projects to improve the efficiency and effectiveness of services and in preparation for the Care Quality Commission (CQC) inspection. The quality and use of data has been improved, which supports better service management, budget planning and monitoring. The Adult Social Care & Health strategic finance team is involved in the transformation and improvement projects, and the management capacity within this finance team is being strengthened in the new finance structure (with two Finance Manager posts, rather than one, supporting the Head of Strategic Finance).	**Complete**
11.	Collective understanding about the cost components of adult social care budgets has significantly improved since 2021. This approach should now be extended so that the income element of the budget, particularly care charges and service-based grant income are equally well understood.	Director of Finance	The management capacity within the Adult Social Care and Health finance team is being strengthened in the new finance structure (with two Finance Manager posts, rather than one, supporting the Head of Strategic Finance) and this will support further improvements. An adult social care workstream has been set up within the Council's Income and Debt Project, which will improve understanding, processes and monitoring of charging, monitoring and debt collection.	**Complete**
12.	Financial modelling used to predict the unit cost and demand for social care need to be kept under review to reflect Government changes and should be refined and updated as further information becomes available.	Director of Finance	Financial modelling has been used to support budget planning for 2024-25, as well as transformation and improvement projects.	**Complete**
13.	Further work on demand modelling also need to be carried out across health and social services to ensure that current predictions of demand and future activity levels are robust.	Director of Finance	Demand modelling has been used to support budget planning for 2024-25, as well as transformation and improvement projects.	**Complete**
14.	The Council needs to ensure that healthcare providers and commissioners make appropriate contributions both to the funding of individual care packages and to the more strategic aspects of service delivery.	Corporate Director of Resources	Adult and children social services are planning a project to further support clients and their families to apply for continuing healthcare (CHC) and discussions with partner organisations will commence to ensure fair contributions towards the costs of the safeguarding partnerships.	**To be progressed**
15.	Financial modelling should be integrated across the Council, to recognize the potential impact that MTFS savings in other areas of spending (particularly housing) might have on the demand for adult social services.	Director of Finance	The Council utilises monthly assurance meetings and the "Star Chamber" process to check financial modelling and cross-Council impacts from service changes, savings proposals, etc.	**Complete**

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
16.	The Council should review its current workforce strategy and ensure that it becomes an employer of choice for adult services.	Corporate Director of Adult Social Care and Health	The workforce strategy is regularly reviewed to improve recruitment and retention.	Complete
17.	Going forward, the MTFS may need to develop a more transformational approach which builds on the approach already adopted in the recent review of eligibility criteria for adult social care.	Corporate Director of Resources	A more transformative approach has been adopted for the identification of MTFS savings for 2025-27.	Complete
18.	Implementation of the High Needs Management Recovery Plan (HNMRP) needs to be kept under regular review.	Corporate Director of Children's, Young People and Education	The recovery plan is regularly reviewed as part of our Directorate oversight and through the Safety Valve monitoring. This includes financial updates through the financial performance reports and meetings with the Department for Education to review our Key Performance Indicators (KPIs).	Complete
19.	Corporate budgets and High Needs Management Recovery Plan implementation plans need to reflect the upfront investment required to realise longer term savings in High Needs provision.	Corporate Director of Children's, Young People and Education	We are working towards a balanced Dedicated Schools Grant (DSG) budget in 2025-26. There has been investment in our Locality Special Educational Needs and Disabilities (SEND) Support Model which is an Early Intervention Model aimed at supporting Children and Young People's (CYP's) needs at the earliest opportunity. Additional capacity has been created within our Special Schools to ensure CYP are educated within the borough and to reduce the need for places in Non-Maintained Independent Schools outside of the borough.	Complete
20.	Commissioning processes and contract monitoring arrangements should be sufficiently challenging for all service providers, with contract documentation that clearly sets out: • the cost and quality of service the Council expects, • eligibility criteria, and • contract monitoring arrangements.	Corporate Director of Children's, Young People and Education	The Head of Service leads a contracts pipeline meeting for all commissioning leads that informs a monthly meeting with the Cabinet Member focused on contract compliance, provider performance and future plans.	Underway
21.	The Council has significantly improved its understanding of how demand for services influences the revenue budgets in Children's services, but it needs to keep forecasting models under review. For example: • forecast reductions in placement costs for children in care are not in line with national trends across the rest of the UK, • nationally, increases in reported numbers of children with disabilities (CWD) are also anticipated and the Council needs to work closely with local health services to model expected future demand •demand is also increasing for statutory child protection and safeguarding services, which needs to be recognized in future budgets • there needs to be a greater understanding about the impact that financial savings made in other parts of the Council, especially housing and homelessness services, might have on demand for children services.	Corporate Director of Children's, Young People and Education	Forecast and modelling of placement costs has been further developed and is now scrutinised at the monthly finance assurance meetings chaired by the Chief Executive.	Complete

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
22.	Recent improvements made in the working relationships between Children's services and the corporate finance team, and in the processes put in place to support effective budget management, need to become fully embedded in day-to-day service delivery. To facilitate this process, the Council has contracted directly with the DfE Financial Adviser for a further 12 months' support which should facilitate embedding their expertise into the Children's Services team.	Director of Finance	The new Strategic Finance structure will support the embedding of these improvements. Consultation on the new structure has finished and recruitment is now commencing to posts that are not filled permanently.	**Underway**
23.	The Council should ensure that information in relation to staffing, budget management and forecasting is accurate and up-to-date, and is embedded in accessible and user-friendly systems so that common data sets can be shared between Children's services and support functions such as HR, payroll and finance.	Director of Finance	The Oracle improvement programme includes an HR workstream (alongside the finance and procurement workstreams) to improve the recording, monitoring and reporting of staffing establishments. The initial scoping work, including the review of current systems and processes, has just commenced.	**To be progressed**
24.	The Council should consider strengthening early help and prevention services, to help reduce demand for care placements in the borough.	Corporate Director of Children's, Young People and Education	Early help, prevention and intervention services for young people have been brought together under the new post of Head of Specialist Children's Services.	**Complete**
25.	There is a well thought through sufficiency strategy for foster carers in the borough, and a transformation project to increase in-house foster care is now in place for 2023-24. A move to more in-house foster care could potentially reduce placement costs by 40 – 50%, so delivering this strategy should be a Council priority.	Corporate Director of Children's, Young People and Education	The fostering transformation project that aims to increase the number of in-house foster carers is on track.	**Underway**
26.	There is now a Direct Payment policy for the 0-17 CWD service, but take-up is relatively low and could be expanded.	Corporate Director of Children's, Young People and Education	Direct payment rates have improved and are now over 40% of care packages provided for children.	**Complete**
27.	Budget setting spreadsheets and financial modelling tools should be understandable by staff outside the corporate finance team, easy to use and maintain, and link back readily to Council reports.	Director of Finance	All budget setting spreadsheets and financial modelling tools have been revised to be more readily understandable.	**Complete**
28.	Financial modelling and budget reports should be clearer about anticipated growth, funding changes and expected savings and should ensure that this information is accurately and consistently presented to decision-makers.	Corporate Director of Resources	The budget setting process commenced earlier for 2024-25, with the MTFS Update report to Cabinet in October being a month earlier than the previous year, allowing more time for internal decision makers and scrutiny. The published proposed savings and growth have also included more information than last year, with a short description and the potential staffing impact. As well as proposed growth and savings, the MTFS Update report included assumptions on funding levels.	**Complete**

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
29.	2023/24 budget reports could be made easier to understand by: • highlighting key messages for members in the summary report • setting out savings and growth figures separately • setting out assumptions about funding changes in appendices, and • ensuring that all appendices are consistent with the summary report.	Director of Finance	The format and content of budget reports were revised for 2023-24.	**Complete**
30.	Financial modelling already underway to quantify budget gaps for 2023/24 and future years should, as a minimum, be extended to 2025/26 and the updated assumptions underpinning these plans should be included in budget reports.	Corporate Director of Resources	The MTFS Update report published for Cabinet in October 2023 was extended to show financial modelling of the budget gap over a 4 years period (rather than a 3 years period the year before) and explained the assumptions in the report and appendices.	**Complete**
31.	Financial modelling should take account of all cost pressures identified, including historical accounting issues and new and emerging financial risks.	Corporate Director of Resources	Financial modelling has now taken account of all cost pressures.	**Complete**
32.	2023/24 budget reports need to be clear about unavoidable spending growth and the plans in place to manage demand-led items e.g., social care and utilities budgets, down to unavoidable levels.	Corporate Director of Resources	The MTFS Update report published for Cabinet in October 2023 was extended to show financial modelling of the budget gap over a 4 years period (rather than a 3 years period the year before) and explained the assumptions in the report and appendices.	**Complete**
33.	Until the Council's overall financial position has stabilised, any other proposals for revenue growth should be reconsidered, unless there is a clear expectation that these can generate additional savings.	Corporate Director of Resources	Revenue growth is limited to essential response for service provision and improvement to Value For Money (VFM). Previously indicated/agreed growth for future years was also reconsidered as part of the 2024-28 MTFS Update.	**Complete**
34.	Section 25 report should present a realistic assessment of the Council's current and expected financial position, and should be expanded to comply with the Local Government Act 2003 by reporting specifically on: • expected levels of General Fund balances and reserves, • all identified spending pressures (which should be quantified), • the s151 officer's opinion on the adequacy of those balances, • the split between earmarked reserves and working balances, • confirmation that working balances will be cash-backed, • any new earmarked reserves which need to be established, and • any proposed transfers to and from earmarked reserves.	Corporate Director of Resources	To be picked up for the 2024-25 Section 25 report to full Council in February/March 2024.	**To be progressed**

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
35.	To provide additional context for decision-makers, the section 25 report could also include information on levels of General Fund balances at neighbouring authorities, and CIPFA guidance on setting levels of balances and reserves.	Corporate Director of Resources	To be picked up for the 2024-25 Section 25 report to full Council in February/March 2024.	**To be progressed**
36.	Monthly budget monitoring reports should clearly set out the Council's target level of General Fund working balances and compare this to expected balances at the year end. If a significant shortfall is identified, the Council should as a priority either: • develop plans for bridging the gap, or • consider the requirement for additional Government support.	Director of Finance	This has been implemented. Officers are proposing to not produce a Period 1 narrative financial performance report in future years to allow appropriate resource to produce the end of year accounts in an accurate and timely manner.	**Complete**
37.	Current savings plans should be rationalised and consolidated, with any duplicated items removed. All savings plans should have nominated "owners" who are responsible for delivering the savings identified within specified timescales set out in budget reports.	Director of Finance	2023-24 savings achievement is monitored on a monthly basis and previously indicated/agreed savings for future years were also reviewed as part of the 2024-28 MTFS Update. All savings business cases have a stated Lead Officer.	**Complete**
38.	Larger savings plans, say over £0.5m, should have detailed business cases which clearly identify the cost of delivering these anticipated savings, and are subject to robust scrutiny before being included in the budget.	Corporate Director of Resources	Savings business case templates include a section for implementation costs and were reviewed in "Star Chamber" meetings before being proposed in the budget consultation.	**Complete**
39.	Progress on the delivery of major savings initiatives should be regularly reported to members in addition to progress in delivering target savings overall.	Corporate Director of Resources	The monthly financial performance reports to Cabinet include narration in the directorate sections on savings that are at risk, as well as the delivery of overall target savings being shown in a table at directorate summary level. Officers are proposing to not produce a Period 1 narrative financial performance report in future years to allow appropriate resource to produce the end of year accounts in an accurate and timely manner.	**Complete**
40.	The Council has successfully implemented transformational change in a number of areas but may need to extend this approach in order to develop more ambitious savings plans.	Corporate Director of Resources	A more transformative approach has been adopted for the identification of MTFS savings for 2025-27.	**Complete**
41.	The Council needs to put in place a much clearer process for identifying and accounting for Transformation costs, which only treats such costs as capital expenditure where they meet Government guidance criteria in full.	Director of Finance	An improved process has been implemented with bid forms for transformation funding and coding of transformation costs to specific revenue cost centres that have been set up in the corporate directorate.	**Complete**
42.	To meet current Government guidelines, the Council should also ensure that any Transformation costs which are capitalised are financed from capital receipts and not borrowing.	Director of Finance	Implemented.	**Complete**

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
43.	The Council should develop a Capital Strategy in line with the current requirements of CIPFA's Prudential Code. This Strategy should clearly set out how capital investment is prioritised and include a requirement for projects previously approved by members to be revisited in the light of the current financial position.	Director of Finance	The Capital Strategy was improved with the help of PWC for 2023-24 to meet this recommendation. Previously approved projects have been revisited as part of both 2023-24 and 2024-25 budget setting rounds.	Complete
44.	An updated version of the rolling three-year capital programme should be presented to members for approval as part of 2023/24 budget reports.	Corporate Director of Resources	The capital programme was agreed by full Council in March 2023 (as part of the budget reports) and the proposed capital programme for the next budget has been further extended to a 5 years programme (2024-29).	Complete
45.	The Council's TMS should set out the assumptions and key risks underpinning expected changes to capital funding streams.	Head of Pensions and Treasury	The current TMS includes changes in funding sources and versions from 2024-25 onwards will highlight key risks.	Underway
46.	The Council should aim to reduce its dependence on borrowing to fund capital investment, by: • identifying sources of non-government grant funding, and • generating additional capital receipts from asset sales.	Corporate Director of Resources	The Council has adopted this approach in financing its capital programme.	Complete
47.	Information contained within the TMS and used to calculate key prudential indicators should be consistent internally and with revenue budgets and capital spending plans approved by Full Council.	Head of Pensions and Treasury	The Head of Pensions and Treasury liaises with the accountants working on the budget reports to ensure consistency.	Complete
48.	The TMS should include up to date financial information and clear performance targets for all types of treasury and non-treasury investments in terms of security, liquidity and yield. For example: • regarding loans to third parties, security arrangements, due diligence processes, and the arrangements in place for monitoring repayment and assessing the possibility of default • regarding investments in council companies, the arrangements for managing performance against financial and non-financial targets, and agreed exit strategies for non-performing companies.	Head of Pensions and Treasury	The Annual Investment Strategy, as stated in the TMS, emphasises the primacy of "security" over any other investment objective. Details of investment instruments and counterparties to be used are provided in the TMS. Within these overarching constraints, optimum returns are sought in line with potential earnings estimated by external advisers and included in the TMS. In addition to internal procedures, details of specific loans taken out or matured over the previous six months are included in the mid-year review and future outturn reports.	Complete

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
49.	The Council's TMS needs to be more explicit, and more realistic about: • whether new borrowing will represent external loans or utilisation of existing liquid resources • expected timings of any new external borrowing, and • whether this borrowing will be long or short term • the impact new loan debt will have on revenue debt charges and General Fund budgets in future years.	Head of Pensions and Treasury	Whilst ongoing improvements will be sought, the TMS and mid-year review include information in respect of three financial years covering: •Capital Financing Requirement; •Liability benchmarks; •Details of current borrowing; •Borrowing strategy; •Borrowing in advance of need and debt re-scheduling; •Sources of borrowing; •Long term debt profile; and •Details of specific loans taken out or matured over the previous six months The impact of taking on new loan debt and the risks therein are taken into account in the Medium Term Financial Strategy.	**Underway**
50.	The Council should update its TMS, revenue budgets, and medium-term financial plans to reflect more up to date assumptions about future interest rates.	Head of Pensions and Treasury	The TMS includes a substantial appendix commentating on expected future movements in interest rates as supplied by the Council's external advisers and a paragraph covering borrowing policy in relation to possible future movements in interest rates. The advisers' advice is updated in the mid-year review.	**Complete**
51.	Given the expected increase in UK interest rates going forward, the Council should also consider the potential benefits of: • a debt reduction strategy, and • replacing short term, variable rate borrowing with long term, fixed rate loans where repayment profiles are matched against the expected useful life of the asset.	Corporate Director of Resources	The Council has a strategy in place to reduce debt through asset disposals (albeit hampered by the need to use capital receipts to fund capitalisation directions) and regularly reviews borrowing/refinancing options.	**Complete**
52.	The Council's published MRP policy should: • explain the MRP framework and calculation options are as set out in current statutory and non-statutory guidance, • highlight any significant changes to the guidance since last year, and • confirm that these requirements are being correctly applied.	Director of Finance	The Council's MRP policy was updated for 2023-24.	**Complete**
53.	The Council should review its MRP policy and underlying calculations, to confirm that the annual charge has been calculated in line with statutory and non-statutory guidance, and that realistic levels of MRP have been built into General Fund budgets.	Director of Finance	The MRP charge for 2019-20 was reviewed as part of the restatement of the Statement of Accounts for that year. Subsequent years will be checked as the annual accounts are brought up to date.	**Underway**
54.	Corporate guidance should be provided on key accounting areas such as the preparation and evidencing of: • bank reconciliations • other key reconciliation processes • bad debt write-offs, and • calculation of bad debt provisions at the year-end.	Director of Finance	The new Strategic Finance structure will support the production and improvement of corporate guidance. The new structure creates a new Finance Manager post (reporting to the Chief Accountant) for systems development, guidance notes and training.	**To be progressed**

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
55.	Bank reconciliations should be completed weekly, with copies provided to the corporate finance team together with evidence confirming that: • each bank statement reconciles back to the ledger, • all suspense and holding account items have been cleared, and that, • cash flow forecasts used to make treasury management decisions have been updated as necessary.	Director of Finance	This improvement is contingent on the implementation of recommendation 54 above.	**To be progressed**
56.	A "dashboard" process (or equivalent) should be established to confirm that: • feeder system reconciliations are undertaken monthly throughout the year, • any reconciling items are investigated, • mis-postings have been corrected, and • all suspense and holding account balances have been cleared.	Director of Finance	The new Strategic Finance structure includes a new Accountant post reporting to the systems Finance Manager to add capacity to ensure that monthly feeder system reconciliations are carried out. A dashboard process will be implemented once the new structure has been recruited into.	**To be progressed**
57.	Bad debt provisions should be calculated on a consistent basis, based on the age of the debt and a realistic assessment of collectability. As a general rule, based on practices that we have observed elsewhere, all debts over 5 years old should be written off and all debts over 2 years old should be at least partially provided for.	Director of Finance	The calculation of bad debt provisions has been reviewed and figures are being updated in the prior years' accounts.	**Complete**
58.	The Council is carrying a significant amount of debt which is more than 7 years old and, although much of this is fully provided for, most of these debts should be written off.	Corporate Director of Resources	An Income and Debt project has been set up to review income collection processes and the achievability of collecting historic debt.	**To be progressed**
59.	A Prepared by Client (PBC) list should be obtained from the audit team and used to ensure that a comprehensive set of working papers is produced each year.	Director of Finance	To be picked up for future years' audits.	**To be progressed**
60.	Templates should be introduced to ensure that working papers are prepared to a consistent standard and support all transactions, disclosures and balances in the Statement of Accounts.	Director of Finance	The new Strategic Finance structure will support the development of templates, through the creation of three Finance Manager posts under the Chief Accountant (for closing & reporting, capital & property companies, and systems).	**To be progressed**
61.	Closedown work should include: • detailed review of year-end working papers at pre-audit stage • analytical review on all material transactions, disclosures and balances.	Director of Finance	To be picked up for future years' closedowns.	**To be progressed**

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
62.	Working papers should specifically address new audit requirements on key accounting estimates for: • land and property valuations • IAS 19 disclosures, and • any material provisions or accounting estimates.	Director of Finance	To be picked up for future years' closedowns.	**To be progressed**
63.	Timely production of year-end accounts and in-year financial information should be a corporate priority going forward, with visible and effective leadership ensuring that: • financial statements are published by 30 September each year, and • outturn reports are published on a regular basis throughout the year.	Director of Finance	Timely production of new year-end accounts will continue to be difficult as we catch up on prior years' accounts. Financial performance reports are published monthly. Officers are proposing to not produce a Period 1 narrative financial performance report in future years to allow appropriate resource to produce the end of year accounts in an accurate and timely manner.	**To be progressed**
64.	Closedown plans should be reviewed and updated to ensure that: • the key tasks identified reflect all Code and PBC requirements, • all tasks are allocated to named individuals, and that, • as much work as possible is completed in advance of 31 March each year.	Director of Finance	To be reviewed for 2023-24 closedown.	**To be progressed**
65.	Closedown work should be less dependent on a small number of staff within the corporate finance team by involving all service-based finance staff as well as Exchequer and Treasury Management personnel.	Corporate Director of Resources	To be reviewed for 2023-24 closedown.	**To be progressed**
66.	Staff briefings on year-end close should be developed and extended to include, for example, technical training on Code disclosures and audit requirements.	Director of Finance	To be reviewed for 2023-24 closedown.	**To be progressed**
67.	Written guidance should be provided to all staff involved in year-end close.	Director of Finance	To be reviewed for 2023-24 closedown.	**To be progressed**
68.	Project management arrangements should ensure that all audit queries are responded to promptly and comprehensively.	Director of Finance	To be reviewed for future years' audits.	**To be progressed**
69.	Regular meetings between the Section 151 officer and the local external audit team, and regular progress reports to the Audit Committee, should be used to monitor both the production of year-end accounts and the progress being made by external audit.	Corporate Director of Resources	This is being carried out to bring prior years' accounts up to date.	**Complete**

Ref	Recommendation	Accountable Officer	Update at November 2023	RAG Rating
70.	The published Statement of Accounts should either include the complete version of the Annual Government Statement, a summarised version to meet Code requirements, or, as a minimum, clear signposting as to where the AGS can be found.	Corporate Director of Resources	Agreed.	**Underway**
71.	2021/22 pension fund accounts should be completed as soon as possible. The 2021/22 pension fund annual report should also be drafted and published as this is now overdue.	Head of Pensions and Treasury	It is expected that the 2021-22 and 2022-23 draft annual reports will be published by 31 January 2024.	**Underway**
72.	Going concern disclosures in Note 1.2 should explain why the going concern assumption remains appropriate given the Council's current financial position.	Director of Finance	To be picked up as the prior year accounts are prepared/finalised.	**To be progressed**
73.	The Statement of Accounts should include credit risk disclosures on trade and loan debts, together with an aged analysis of debtors and summary information on debts past due date not yet impaired.	Director of Finance	To be picked up as the prior year accounts are prepared/finalised.	**To be progressed**
74.	To demonstrate that all relevant Code requirements have been met, the Council should complete CIPFA's detailed disclosure checklist each year.	Director of Finance	To be picked up as the prior year accounts are prepared/finalised.	**To be progressed**
75.	Spreadsheet-based cross-referencing and consistency checks should be extended to include cross-checks on: • movements in useable and unusable reserves • the Expenditure and Funding Account, and • the subjective analysis of Net Cost of Services in Note 1C.	Director of Finance	To be picked up as the prior year accounts are prepared/finalised.	**To be progressed**
76.	Some complex accounting matters have been outstanding for several years. Resolving these matters, and making appropriate adjustments to prior year's financial statements, should be regarded as a priority.	Corporate Director of Resources	This has been picked up in the restatement of the 2019-20 Statement of Accounts.	**Complete**

Capital Framework Improvement Plan

Croydon Council (London Borough of Croydon)
January 2023

pwc

1

Background

Background

Context

- In November 2022 PwC was commissioned to support the Council in developing its Capital Strategy; a document that both drives and explains capital expenditure and investment decisions in line with service objectives and overall organisational strategy, and demonstrates how capital investment decisions are being made with sufficient regard to the long-term financing implications and potential risks to the authority.

- In parallel, a high-level current state assessment was undertaken, reviewing existing capital framework documentation against good practice, as set out in CIPFA's 2021 Guidance (Capital Strategy Guidance: A Whole Organisation Approach), and through liaison and discussion with key Council stakeholders (Appendix A). This process enabled the identification of key areas for development and improvement as articulated in a set of recommendations and an indicative high-level implementation plan.

- The Capital Strategy prepared between November 2022 and January 2023 demonstrates that the Council has made some progress in developing its approach to capital governance, management and monitoring of the Capital Programme, with the focus of effort to date centred on addressing those recommendations relating to capital within the Reports in the Public Interest (RIPI), Worthing Solutions and Corporate Finance Review reports.

- The creation of the Capital Internal Control Board (CICB) provides a solid foundation for capital governance at a strategic level and the procurement of an Electronic Project Proposal Management System (EPPMS) to support capital project management, monitoring and reporting represents a significant opportunity to enhance the Council's capital framework. The latest Asset Management Plan and its commitment to embedding an Asset Review and Challenge process also signals how the Council will better understand its future capital requirements and the role of property assets in supporting service transformation.

- The Council does, however, recognise that much more needs to be done.

- This document aims to support the Council is its improvement ambitions over the coming year. It sets out the findings from the high-level gap analysis before providing a series of recommendations grouped across four thematic areas alongside supporting tools and templates which draw on good practice examples from across the sector. It also provides an indicative implementation plan to aid strategic planning and decision-making.

- The document is structured as follows:
  - Capital Framework Good Practice & Gap Analysis
  - Recommendations
  - Indicative Improvement Plan
  - Indicative Tools & Templates
    - Governance Framework, Approvals & Key Roles
    - Business Case Framework
    - Reporting Framework
  - Appendices

Capital Framework Good Practice & Gap Analysis

2

Capital Framework Good Practice & Gap Analysis

Section	Good Practice State	Current State	Gap
Capital Strategy Purpose	• Capital strategy intention • Strategic planning framework • Evidence of need	• The Mayoral Business Plan 2022-26 sets out outcomes and priority areas which form the basis for the purpose of the Capital Strategy • Short-term focus given current financial landscape and challenges	• Long-term ambitions (10 year + time horizon) are not currently articulated and linked to a clear strategic planning framework • Data analysis, insight and intelligence to inform and evidence a need for future capital investment on a service by service, cross-cutting and wider public sector basis is not set out
Capital Strategy Influences	• External (strategic and key partner influences) • Internal (organisation and commercial strategies, asset management etc)	• The 'Delivering for Croydon Programme' comprising regeneration projects to develop new housing and modern infrastructure to support growth is the only identified internal influence on the existing Capital Strategy	• Absence of clearly identified strategically important external and internal influences and partners in relation to capital investment and expenditure, or associated impact and actions and activities to address
Capital Programme Plan	• Capital investment principles, objectives and priorities • Capital Planning process • Capital programme delivery	• The Capital Programme is presently in an immature state with a limited focus on medium to long term capital programme expenditure and funding • Policies, processes and operating procedures to support effective capital planning and programming are immature or lacking	• Absence of long-term forecasting of capital expenditure and funding • Need for clear articulation of the driving principles that will shape the approach to the Capital Programme • No clear and transparent capital planning and prioritisation framework is in place • No delivery and performance framework currently exists

Capital Framework Good Practice & Gap Analysis

Section	Good Practice State	Current State	Gap
Capital Programme Governance Model	• Capital programme board and roles and responsibilities are clearly set out providing systematic oversight and review of business cases for capital projects • Formal approval process of capital projects • Formalised processes in place for variations and amendments to the Capital Programme	• The Capital Internal Control Board (CICB) has been created and provides strategic oversight and review of capital bids for projects • No standardised arrangements for capital project and programme management exist across service directorates	• A comprehensive business case-led approach to capital project identification and approval supported by appropriate tools, templates and guidance is not in place • Absence of clear capital programme amendment procedures (in year variations, new or emergency projects)
Capital Programme Funding and Financing	• Current capital programme expenditure • Capital programme funding requirements • Forecast of capital expenditure and funding • Funding sources	• The Council had provided details of the funding and financing of the Capital Programme comprising an overview of the funding sources to be used to finance expenditure and Prudential Indicators to measure the affordability of the capital investment plans	• A need for more robust assessment of prudential and affordable borrowing limits • An absence of a debt reduction strategy
Capital Programme Management and Monitoring	• Monitoring mechanisms • Capital appraisal process • Decision-making process • Management of programme delivery • Reporting structure and processes	• A capital bids process exists. Supporting templates provide a project overview, set out the proposed delivery route for the project alongside a financial breakdown of proposed expenditure, funding and assess schemes against evaluation criteria	• No clear capital reporting framework providing a standardised and consistent project, programme and portfolio performance monitoring approach, aligned to the capital governance, model exists • Absence of a post-project delivery evaluation procedure

Capital Framework Good Practice & Gap Analysis

Section	Good Practice State	Current State	Gap
Asset Management Strategy	• Current property portfolio overview • Current property development programme and asset review • Investment strategy • Disposal strategy	• The Corporate Asset Management Plan (AMP) provides guidance on the strategic management of assets and the Council's ambitions of reviewing and challenging its current asset portfolio. It also includes details on governance around asset disposals.	• Absence of an overview of the current property portfolio and its performance against key metrics • Limited understanding of future service needs and associated implications for the Council's built estate and opportunities to rationalise, re-configure and right-size
Risk Management Strategy	• Separate overarching risk management framework for capital • Assessment of risk appetite • Macro risk assessment and mitigations	• A simple risk register captures and consolidates the risks identified and mitigation actions associated with capital projects and programmes and is reviewed by the Capital Internal Control Board	• Absence of an independent risk management framework to assess and agree risk appetite • Absence of the identification and development of mitigation strategies for macro level risks associated with the capital portfolio and constituent programmes
Organisational Knowledge and Training	• Internal skills and capacity assessment • Approved plan for the continued professional development of staff	• The terms of reference for the Capital Internal Control Board acknowledges a need to develop the knowledge and skills of key stakeholders working across capital project / programme and capital finance competencies	• An absence of an established process for identifying capacity and capability requirements and associated training needs • No plan for developing and improving the skills and knowledge of key officers and members in relation to capital planning, programming, management and monitoring currently exists.

3

Recommendations

Recommendations

Our key recommendations across four thematic areas are set out below. Each recommendation is considered high priority with its implementation likely having a material impact on the Council's ability to more effectively plan, programme and manage its capital investment and expenditure in line with its strategic plans and priorities and with sufficient regard to the long-term financing implications and potential risks to the authority.

1 Governance Model

- Undertake a review and gap analysis of the existing **capital governance model** against the good practice blueprint set out in **section 6**
- Consider the merits of establishing a **'Capital Hub'** in the medium term. This function would have responsibility for overseeing and managing the Council's Capital Programme, the governance process and reporting and monitoring. It would also play a key role in designing, implementing and embedding good practice tools and templates across the authority with external support / guidance as appropriate

2 Capacity & Capability

- **Assess existing capacity and capability** across the authority in relation to the capital planning and programming, delivery, management and monitoring spectrum in line with good practice (see suggested roles and responsibilities in **section 6**), identifying gaps and actions to mitigate as appropriate
- **Secure CMT buy-in to the proposed capital governance framework and skills / capability and capacity action plan**
- **Design and roll-out a training event** for officers and members involved in capital governance and capital project management

3 Business Case Led Approach

- **Design, implement and embed a business case-led approach** for new capital investment needs and project development. This should be underpinned by the five-case model for developing business cases based on HM Treasury guidance in the Green Book **(see section 7)** and should build upon the existing capital bid process and pockets of good practice as appropriate.
- Officers within the Capital Hub (or equivalent) should be responsible for designing, implementing and embedding good practice tools and templates with external support / guidance as appropriate.

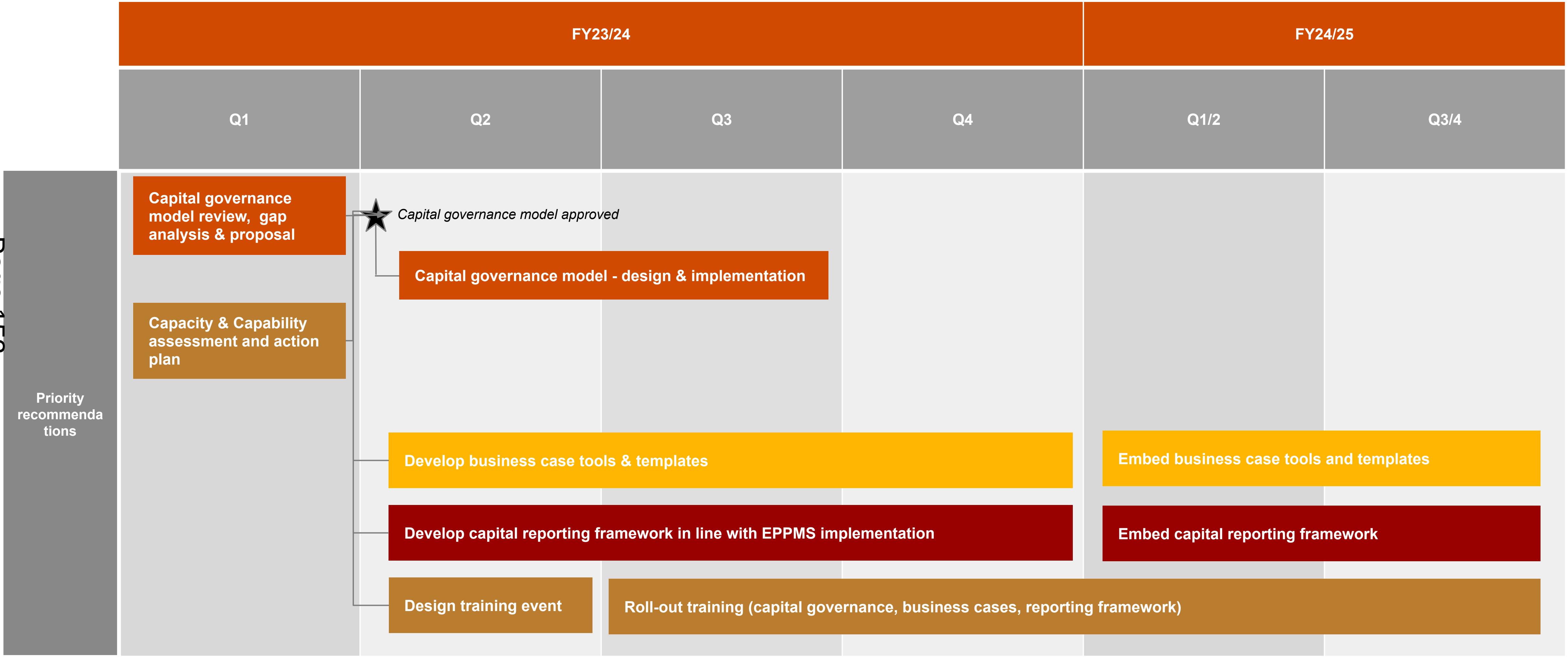
4 Reporting & Monitoring

- **Develop a more robust capital reporting framework**, underpinning the capital governance model approved by CMT, that introduces a standardised and consistent reporting approach for capital programmes. This framework should comprise four reporting levels and cover four key metric categories: timeline and delivery; finances; risks, and benefits **(see section 8)**.
- **Metrics / KPIs for each of the four metric categories should be outlined for each reporting level** building on the project level reporting good practice example provided on **slide 30**. Reporting ambitions and indicative templates should inform the specifications for, and implementation of, the new EPPMS and form part of both pre and post EPPMS training on good capital project management.

5

Indicative improvement plan

Indicative Improvement Plan



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Indicative Tools & Templates - Governance Framework, Approvals & Key Roles

6

Governance Structure and Process: overview of key roles

The diagram below provides a blueprint for capital governance, drawing on good practice from across the local government sector.

Strategy and coordination

Full Council

Mayor & Cabinet

Corporate Management Team (CMT)

Capital Internal Control Board (CICB)

Capital Hub*

Capital Programme Manager
Oversight of the whole capital programme, ensuring that the Capital and Investment strategy is consistent with the Council's strategic plan priorities

Capital Programme Support Officer
Supporting the collation of performance metrics and establishing consistency across all Capital Programmes

*structural and reporting alignment may vary by local authority

Finance team

Capital Finance Team
Support the development of the capital and investment strategies, monitor and challenge financial performance across all Capital Programmes, and manage the financial impact of changes to the Capital Programme

What is the function of the Capital Programme Lead?

There are a set of activities that will be required to support the management of the Capital Programme Board. The Director overseeing their Capital Programme should identify who is best placed to support these activities:

1. Collating KPIs from each project to incorporate into the Capital Programme Board report every month
2. Developing the agenda for the Capital Programme Board and managing and monitoring actions for the Capital Programme Board
3. Liaising with the Capital Hub to share KPIs and escalated risks and issues from the Capital Programme Board up to the Capital Internal Control Board.

Operational delivery / performance management

Capital Programme Board

Capital Programme Lead
Central coordinating role to collate and review KPIs across the Capital Programme; supports Board preparation

Programme / Project Boards

Programme / Project Lead
Responsible for the performance management and oversight of day-to-day delivery; capital budget holder

Finance Business Partnering Team
Provide strategic advice and support to each Directorate in relation to their Capital Programme, and support Project leads in relation to day-to-day financial management of individual capital projects

Procurement and Legal SME
Provide specialist advice and input at the Capital Programme and project level

Service Involvement
Services will be represented at the Project Board: the specific role is at the discretion of the Service. They will have oversight of project delivery and input into joint decisions around changes to the project.

Approval Process: key stages of project scoping and approval

An overview of the key stages of project scoping and approval and their relation to annual budget setting processes is set out below. Budget terms should stem from the authority's Financial Procedure rules.

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Ten year capital programme (annual budget setting)	Initial Business Case	Outline Business Case	Full Business Case
Strategy & Development of Capital Programme	Stage 0: Establishing the Case for Change	Stage 1: Options appraisal and feasibility	Stage 2: Detailed design and procurement
• On an annual basis, the **ten-year Capital Programme** is amended. It should include: • Firm projects (including those currently being delivered), with agreed budgets. • High level proposal of the annual programme of work with indicative budgets for each project.This should include an initial business case for each proposed project. • Pipeline of projects for future years	• The strategic case for change and the anticipated outcomes of the investment. This should include a data-driven evidence base that demonstrates the need to invest. • A long list of options and high level options appraisal based on a SWOT and cost benefit analysis. This should include BAU ('Do nothing') as an option. • A short list of options to progress to OBC, identifying the preferred option. • A high level implementation plan and indicative budget for the preferred option.	• A detailed options appraisal based on a detailed cost benefit analysis of each short listed option. • An agreed procurement strategy (including procurement route, risk allocation and charging mechanism). • An implementation plan and final budget for the preferred option. • This budget is the baseline, according to the financial procedure rules.	• A summary of the procurement process and evaluation of each shortlisted service provider, presenting the most economically advantageous tender • Contract management arrangements and terms and conditions, and confirmation of readiness to enter into the contract and begin delivery • Detailed design of the solution, a refined and final project plan and revised budget • No separate change request form is required for variations
Indicative budget	Provisional budget	Final budget	Revised budget (a variation)

For projects / programmes that are part of the ten year Capital Programme, they have already been approved by the Capital Internal Control Board and Full Council.

As they progress across the stages, they are managed by the Capital Programme Board and do need to go back to the Capital Internal Control Board or Full Council, unless there is a variation against the previous approved budget.

For new in year projects / programmes, the IBC needs to be initially approved by the relevant governance board, as per the Council's schemes of delegation. From Stage 1, they are managed by the Capital Programme Board and do not need to go back to the Capital Internal Control Board or Full Council, unless there is a variation against the previous approved budget.

Approval Process: project lifecycle overview

An overview of the approval process across the project lifecycle which draws on local government good practice is set out below..

Strategy & Capital Programme development

Strategy & Capital Programme development

- A capital and investment strategy and ten-year Capital Programme is developed for the Council. It is drafted by the Capital Internal Control Board, which compiles and reviews proposed Capital Programmes developed jointly between the Service and team responsible for delivering the Capital Programme.
- On an annual basis, the ten-year Capital Programme is amended to (a) roll forward an additional year, (b) include new funding, (c) include any additional in year projects, (d) include the specific amount of funding where it is allocated annually (e.g. for schools).

Management of the Capital Programme and annual programme of work

- The updated ten-year Capital Programme should include an annual programme of work. This should include indicative budgets for each project. Once approved by Full Council, it will form the approved Council Capital Programme.
- In year changes can be made to the approved Capital Programme. This may relate to unplanned emergency projects or may be a result of a new source of funding. It also include any variances in cost.
- The Capital Programme Board oversees and manages the annual programme of work and determines when projects can be progress to the next stage.

★ Approval

Stage 0: Case for change

Commit to investigate

- A Project lead is assigned to initiate Stage 0: establishing the case for change, and drafting the initial business case (IBC).
- The IBC should set out an evidence-based case for change and assess a long list of options, including continuing with BAU.
- The IBC is presented to the Capital Programme Board, which can reject, request adjustments, or approve it. It is escalated to the Capital Internal Control Board or Full Council if the budget is higher than the previously approved budget, or if it is a new in-year project.

★ Approval

Stage 1: Options appraisal and feasibility

Commit to invest

- The objective of this stage is to investigate and conduct the required due diligence (through a feasibility assessment) to confirm the preferred way forward.
- The preferred way forward should be identified from a robust cost benefit analysis of a short list of options.
- The OBC is presented to the Capital Programme Board, which can reject, request adjustments, or approve it. It is escalated to the Capital Internal Control Board or Full Council if the budget is higher than the previously approved budget.

★ Approval

Stage 2: Detailed design and procurement

Commit to spend

- The objective of this stage is to conduct the detailed design and submit the planning application. The full business case should be developed up to final commitment to execute the project.
- A procurement exercise is conducted, in line with Council procurement rules. The outcome of the procurement should identify the most economically advantageous tender.
- The FBC is presented to the Capital Programme Board, which can reject, request adjustments, or approve it. It is escalated to the Capital Internal Control Board or Full Council if the budget is higher than the previously approved budget.

★ Approval

Stage 3: Project delivery

Ongoing project performance management

- The Capital Programme Board should have central oversight of all project and programme performance.
- The Capital Programme Lead should maintain a central dashboard of finance and delivery KPIs from all projects which the board reviews on a monthly basis.
- The Capital Programme Board will focus on variances in time, scope, and cost, as well as key risks and issues.

Variations in scope, cost, and time

- Variations in time, scope, and cost are tracked against the OBC and should be measured against the previous variation, as well as the baseline.
- Once a variation in cost is identified at a project level, the Project lead will complete a change request form.
- Change requests are signed off at the Project-level, Capital Programme Board, or Capital Internal Control Board, based on the scheme of delegation.

★ Approval

Project closure

- Project closure occurs once delivery and the physical finish of the build is completed.
- A client acceptance process is undertaken between LBC, led by the Project lead, and the external contractor.
- A project closure report is completed after three months of completion.

Stage 4: Final closure

Final closure and benefits realisation

- Final closure occurs twelve months after project closure.
- The importance of this stage is to ensure that there is an effective handover between the delivery team and the team responsible for managing the asset, and that the intended outcomes and benefits are measured after the project has ended.

★ Approval

Responsibilities: Capital Hub Team

A Capital Hub team typically comprises a Capital Programme Manager and Capital Programme Support Officer, who are responsible for overseeing and managing the Council's Capital Programme, the governance process, and reporting to the Capital Internal Control Board, Corporate Management Team, Mayor & Cabinet within the capital governance structure.

Capital Programme Manager

- Leads the Capital Hub and supports the management of the Capital Programme, which comprises the portfolio of the capital projects and pipeline
- Contributes to the capital and investment strategy and supports the annual capital and budget planning process, in alignment with the LBC's strategy and Corporate Plan
- Liaises with each Capital Programme Board, the Capital Internal Control Board, Capital Finance Team around capital needs and priorities
- Oversees the resources, processes, technologies and approach to ensure the successful delivery of capital programmes and projects
- Oversees and compiles monitoring and reporting to provide a central view of the Capital Programme, incorporating performance data from each Capital Programme Board
- Drives and manages the capital governance framework, ensuring the correct escalations and the projects are discussed at the right level of governance, and provides advice and guidance to staff
- Supporting the management of the Capital Internal Control Board, in terms of preparing reports, defining the agenda, recording decisions, and overseeing actions

Capital Programme Support Officer

- Supports the Capital Hub and management of the Capital Programme, which comprises the portfolio of capital projects and pipeline
- Develops and manages standardised tools and templates to be deployed across the governance structure including Capital Internal Control Board, Corporate Management Team, Mayor & Cabinet and Full Council
- Supports the compiling of reporting information to provide a central view of the Capital Programme, incorporating performance data from each Capital Programme Board, and supporting the coordination of appropriate escalations
- Supports with the provision of resource and technologies and the management of processes and approach to successfully deliver Capital Programmes and projects
- Supports and facilitates the capital governance framework, including providing advice and guidance to staff
- Supporting the administration of the Capital Internal Control Board, in terms of minute taking, scheduling, and other key tasks

Responsibilities: Capital Finance Team

A Capital Finance Team's typical responsibilities include Capital and Investment Strategy, Capital Financing and Reporting. We have set out the responsibilities for four key team members: the Head of Financial Strategy, Finance Business Partner, Corporate Accountant Capital, and Capital Programme Accountant below.

Capital and Investment Strategy	Contributing to the annual development of the capital and investment strategy and capital and budget planning, working closely with the Capital Hub and Capital Programme Boards.
Capital Financing	Estimating the capital resources LBC will have as part of the development of the ten year capital and investment strategy, allocating resources against schemes and making recommendations on how to fill any funding gaps e.g. borrowing.
Reporting	Statutory reporting on the overall financial position of the Capital Programme and the financial position for particular schemes, and non-statutory reporting for internal/member monitoring of the capital finance position.

Head of Financial Strategy

- Provides strategic management to ensure the delivery of comprehensive financial planning, including the management of risks and opportunities to the financing of the LBC's services, and priorities and desired outcomes for the short, medium and long term
- Responsible for the coordination of the Financial Strategy as part of the overall Budget and Business Planning process
- Strategic finance lead in the development and delivery of the capital and investment strategies, ensuring the revenue consequences of these are accounted for in the process
- Oversees and reviews the delivery of accurate and timely reports to the Capital Internal Control Board, Corporate Management Team, Mayor & Cabinet and Full Council
- Attends the Capital Internal Control Board when required, in an advisory capacity

Finance Business Partner

- Provides strategic financial and commercial advice as an integral part of the Directorate Leadership Team and Capital Programme Board
- Contributes to the development of the capital and investment strategy and annual Capital Programme as part of annual budget and medium term financial planning
- Collaborates with teams delivering capital projects as trusted advisors around high impact budgets, helping to monitor business performance and analysing financial management information to provide value added insight
- Reviews, provides advice and challenge on business cases, and undertakes modelling and analysis to support the development of business cases
- Provides operational support to teams delivering capital projects to provide assurance for day-to-day financial management performance, including providing check and challenge for operational metrics, and 'joining the dots' with service performance metrics. Flags any issues, investigating and resolving or escalating where necessary
- Engages with the Capital Finance Team and Capital Hub to contribute to central reporting to the Capital Internal Control Board, Corporate Management Team, Mayor & Cabinet, and Full Council

Responsibilities: Capital Finance Team cont.

The Corporate Accountant - Capital and Capital Programme Account roles support the Head of Corporate Finance in the development and monitoring of the financial strategy and capital and investment strategy and performance framework, develop and update the Council's Medium Term Financial Plan, and produce timely and accurate financial monitoring and outturn reports.

Corporate Accountant - Capital

- Contributes to the annual capital budget setting process as part of the annual capital and revenue budget planning process. This includes conducting financial appraisal and financing options for investment opportunities in accordance with the investment strategy, and monitoring the availability of capital finance including grant funding and the use of capital reserves
- Ensures that the financial implications of business cases and project appraisals are discharged effectively, and advises on the capital financing strategy and most effective use of capital resources
- Works with each Capital Programme Lead and the Capital Hub to consolidate and produce performance reports for the Capital Internal Control Board, Corporate Management Team, Mayoral & Cabinet, and Full Council, providing commentary where required. Ensures the latest capital programme is reflected on SAP BPC for project managers to forecast against
- Supports the management of the Director of Finance's operational responsibilities as Accountable Officer
- Creates finance returns to government, including capital estimates return (budget) created once a year, and a quarterly CPR report to show what has been spent in comparison to the estimates (to highlight any variances)

Capital Programme Accountant

- Works alongside the Corporate Accountant for Capital and other key stakeholders to support the annual capital budget setting process as part of the annual capital and revenue budget planning process. This includes assessing the financial and funding implications of new schemes and changes to the programme
- Provides a capital finance check of the capital programme financing and cash flow on a monthly basis and capital finance support year end by checking project costs and accruals are on IBC, checking funding, and balancing the capital programme
- Works with the Corporate Accountant for Capital and in consultation with the Finance Business Partnering Teams to develop the performance reports for the Capital Internal Control Board, Corporate Management Team, Mayor & Cabinet, and Full Council
- Monitors and reports on capital grant funding and developer contributions, including completing year end working papers

Responsibilities: Capital Programme Lead and Programme / Project Lead

The Capital Programme Lead and Programme / Project Lead responsibilities are a set out below and are required to support the management of the associated Capital Programme Board. The Director overseeing each Capital Programme should identify who is best placed to support these activities as the Capital Programme Lead.

Capital Programme Lead

- Central coordinating role to collate and review metrics across the Capital Programme, and supporting the delivery of Capital Programme Board meetings
- Engages with Project Leads to ensure key reporting metrics are compiled into the monthly report for the Capital Programme Board
- Responsible for the management of the Capital Programme Board meeting, including:
  - Setting the agenda with the Chair
  - Identifying and managing administrative resources to support scheduling and minute taking
  - Tracking actions relating to the meeting
  - Compiling the actions, risks and issues, that need to be escalated from the Capital Programme Board, to the Capital Internal Control Board
- Engages with the Capital Programme Manager in the Capital Hub and the Capital Finance Team to share the relevant delivery and finance data from the Capital Programme Board to incorporate it into a central view of the Capital Programme
- Compiles and shares business cases and change request forms to the Capital Internal Control Board and Full Council for approval

Programme / Project Lead

- Responsible for day to day project delivery, ensuring it is delivered on time, to budget, and to the agreed scope and specification. This includes:
  - Reviewing progress against timeline, milestones, and activities
  - Identifying key risks and issues, developing mitigations, and escalating them where appropriate
  - Reviewing the project budget and spend, with support from the Finance Business Partnering team
  - Contract management of third party suppliers
- Responsible for drafting business cases and change requests, and escalate any key risks / issues to the Capital Programme Board
- Owning and managing a performance dashboard, and monitoring key metrics as part of project delivery
- Reviewing and updating the IBC with forecast data and supporting narrative
- Liaising with the Capital Programme Lead by providing the relevant project data, which will be collated for the Capital Programme Board monthly report
- Responsible for ensuring adherence to the financial regulations and contract procedure rules

Responsibilities: Service Involvement and Subject Matter Experts

Service Involvement and Subject Matter Expert responsibilities are set out below. These roles will support the strategic development and delivery of the Capital Programme. It is at the discretion of the Service and the team responsible for delivering the Capital Programme as to which specific individuals would support with these activities.

Service Involvement

It is at the discretion of the Service in terms of who they assign to support the key activities below.

- Identify service needs and requirements, which informs the development of the Capital Programme, and subsequent business cases.
- Review and sign-off business cases and change requests. This is likely to require Deputy Director / Director level sign off.
- Oversee the performance of capital projects as representatives of the Service at project boards.
- As the representatives of the Service at project boards, they:
  - Review timeline and milestones, project budget and spend, and are consulted on mitigating actions to minimise the likelihood of variations in time, scope, and budget
  - Review risks and issues, and are consulted on mitigating actions and decisions to escalate to the Capital Programme Board
  - Agree any variations in time, scope, or budget

Subject Matter Experts - SME

As part of the scoping, planning, and delivery of the Capital Programme, there will be a requirement to involve subject matter experts from Procurement, Contract Management, and Legal. Below is an overview of where their advice and expertise will be required.

- Development of the Capital Programme - strategic input from Procurement and Contract Management will be beneficial to inform the development of the Capital Programme.
- Business case development - the Procurement and Contract Management team should provide guidance around the commercial approach and routes, which will need to be defined in the business case. Any legal considerations and related risks should also be reviewed by the Legal team.
- Project Board and Capital Programme Board - representation from subject matter experts from Procurement and Contract Management, and the Legal team may be required depending on the agenda for the boards, and whether there are key issues that need to be discussed that would warrant their input.

Indicative Tools & Templates - Business Case Framework

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Business Case Framework: core templates

An overview of the core templates that can be used as part of the scoping and delivery of a capital project is provided below.

Tool / Template Name	Overview	What Stage is This Tool Used At?
Initial Business Case (IBC)	The IBC is where the 5 business case model will be developed, and sets out the case for change and a long list of options. Sign off demonstrates a commitment **to investigate**.	Stage 0: Establishing the case for change
Outline Business Case (OBC)	The OBC builds upon the IBC as it now includes a robust options appraisal, and sign-off demonstrates a **commitment to invest.** As a first step, the IBC should be revisited and there should be confirmation that information still remains valid.	Stage 1: Options appraisal and feasibility
Full Business Case (FBC)	The FBC builds upon the OBC as it now includes a detailed design and implementation plan, and sign-off demonstrates a **commitment to spend.** As a first step, the OBC should be revisited and there should be confirmation that information still remains valid.	Stage 2: Detailed design and procurement
Change Request Form	Change request forms will be required to be completed by the Project Lead if there is any type of Change needed on the project. Types of changes could include budget, resource or timelines adjustments.	Stage 3: Project delivery
Project Closure Report	This is the final document that needs to be completed as part of a project/programme. It is where an overview of the work is given, performance assessment undertaken, lessons learnt documented, and any transfer of documents is agreed.	Stage 4: Project closure

Business Case Framework: overview

An overview of the three business cases articulated within HM Treasury's Green Book is set out below. Each business case comprises five dimensions and builds up at an additional level of detail and granularity as the business case progresses.

1. **Strategic:** what is the case for change, including the rationale for intervention? What is the current situation? What is to be done? What outcomes are expected? How is this aligned to the wider council outcomes and capital and investment strategy?
2. **Economic:** what is the net value (including social value) of the intervention compared to continuing with BAU? What are the risks and their costs, and how are they best managed? Which option reflects the optimal net value (based on a cost / benefit analysis)?
3. **Commercial:** can a realistic and credible commercial deal be struck? What is the commercial strategy? Who will manage which risks?
4. **Financial case:** what are the funding sources for this project? What is the impact on the budget in terms of both capital and revenue?
5. **Management case:** are there realistic and robust delivery plans? How can the proposal be delivered?

Ten year capital programme (annual budget setting)

Strategy & Capital Programme development

On an annual basis, the ten-year Capital Programme is amended. It should include:

- Firm projects (including those currently being delivered), with agreed budgets
- High level proposal of the annual programme of work with indicative budgets for each project. This should include an initial business case for each proposed project, with the exception of Major Infrastructure, Pupil Places, and Highways and Structural Maintenance.
- Pipeline of projects for future years

Indicative budget

Initial Business Case

Stage 0: Establishing the case for change

- The strategic case for change and the anticipated outcomes of the investment. This should include a data-driven evidence base that demonstrates the need to invest
- A long list of options and high level options appraisal based on a SWOT and cost benefit analysis. This should include BAU ('Do nothing') as an option.
- A short list of options to progress to OBC, identifying the preferred option.
- A high level implementation plan and provisional budget for the preferred option.

Provisional budget

Commitment to investigate

Outline Business Case

Stage 1: Options appraisal and feasibility

- A detailed options appraisal based on a detailed cost benefit analysis of each short listed option
- An agreed procurement strategy (including procurement route, risk allocation and charging mechanism)
- An implementation plan and final budget for the preferred option
- This budget is the baseline, according to the financial procedure rules

Final budget

Commitment to invest

Full Business Case

Stage 2: Detailed design and procurement

- A summary of the procurement process and evaluation of each shortlisted service provider, presenting the most economically advantageous tender
- Contract management arrangements and terms and conditions, and confirmation of readiness to enter into the contract and begin delivery
- Detailed design of the solution, a refined and final project plan and revised budget
- No separate change request form is required for variations

Revised budget (a variation)

Commitment to spend

Initial Business Case (or Strategic Outline Case)

The Initial Business Case (or Strategic Outline Case) will precede the Outline Business Case. This is the first stage where the 5 business case model will be developed, and sets out the case for change and a long list of options. Sign-off demonstrates a **commitment to investigate**.

The areas to be included at the IBC stage, within each of the 5 business cases, are:

Strategic

- Context
- Alignment to relevant strategy (e.g. capital and investment strategy, service strategy)
- Case for change (including existing arrangements and spending objectives)
- High-level scope and service requirements
- Main benefits (aligned to Council outcomes)
- Main risks
- Constraints and dependencies

Economic

- High-level cost benefit analysis of options (including: do nothing, do minimum, do maximum) and provisional budget assigned to each option
- Identify short list of options and preferred way forward to take to OBC

Commercial

- High-level procurement strategy, including procurement route

Financial

- Identification of funding source (capital and revenue requirements)
- Future costs, income and planned efficiencies, setting out the impact on income and expenditure
- Overall affordability and funding

Management

- High-level implementation plan, including:
  - Timescale
  - Cost
  - Resources
- High-level risks

Outline Business Case

The Outline Business Case (OBC) will come after the Initial Business Case (IBC) and precede the Full Business Case (FBC). The OBC builds upon the IBC as it now includes a robust options appraisal, and sign-off demonstrates a **commitment to invest.** As a first step, the IBC should be revisited and there should be confirmation that information still remains valid.

The areas to be included at the OBC stage, within each of the 5 business cases, are:

IBC } Sets out the case for change and a long list of options, and sign off demonstrates a commitment to investigate

Strategic

- Review the strategic case in the IBC, and make any changes as appropriate (e.g if the need has increased)

Covered at IBC -
- Context
- Strategy and aims
- Case for change
- High-level scope and service requirements
- Main benefits and risks
- Constraints and dependencies

Economic

- Detailed options assessment based on a detailed cost benefit analysis of each option
- Identification of the preferred option

Commercial

- Procurement strategy and route
- Service requirements and outputs
- Risk allocation
- Charging mechanism
- Key contractual arrangements
- Personnel implications

Financial

- Review the financial case in the IBC, and make any changes as appropriate

Covered at IBC -
- Identification of funding source (capital and revenue requirements)
- Future costs, income and planned efficiencies, setting out the impact on income and expenditure
- Overall affordability and funding

Management

- Detailed implementation plan, including:
  - Project management governance
  - Benefits realisation and change management
  - Risk management arrangements
  - Project assurance, contingency arrangements and plans

Full Business Case

The Full Business Case (FBC) will come after the Outline Business Case (IBC) and is the final business case that needs to be produced. The FBC builds upon the OBC as it now includes a detailed design and implementation plan, and sign-off demonstrates a **commitment to spend.** As a first step, the OBC should be revisited and there should be confirmation that information still remains valid.

The areas to be included at the FBC stage, within each of the 5 business cases, are:

IBC – Sets out the case for change and a long list of options, and sign off demonstrates a commitment to investigate

OBC – Sets out a detailed options appraisal of a short list, and sign-off demonstrates a commitment to invest

Strategic

- Review the strategic case in the IBC, and make any changes as appropriate (e.g if the need has increased)

Covered at IBC -
- Context
- Strategy and aims
- Case for change
- High-level scope and service requirements
- Main benefits and risks
- Constraints and dependencies

Economic

- Confirm the preferred way forward as part of the options appraisal in the OBC.
- Detailed design of the solution and the revised budget
- Evaluation of each shortlisted service provider, presenting the most economically advantageous tender

Commercial

- Set out the negotiated deal and contractual arrangements and terms and conditions, and confirmation of readiness to enter into the contract and begin delivery
- Set out the procurement process and evaluation of best and final offers

Financial

- Review the financial case in the IBC, and make any changes as appropriate

Covered at IBC -
- Identification of funding source (capital and revenue requirements)
- Future costs, income and planned efficiencies, setting out the impact on income and expenditure
- Overall affordability and funding

Management

- Final implementation

Including:
- Project management governance
- Benefits realisation and change management
- Risk management arrangements
- Project assurance, contingency arrangements and plans

Indicative Tools & Templates - Reporting Framework

8

Reporting Framework: overview

A standardised and consistent reporting approach for Capital Programmes is a critical element within good capital governance. It will make it quicker and easier to: a) identify performance issues; b) make informed decisions, and c) consistently communicate key messages both up and down the reporting chain. At each of the four reporting levels shown in this framework, the content of reporting should cover four key metric categories: timeline and delivery, finances, risks, and benefits.

Strategic

Operational

Executive level Full Council, Mayor & Cabinet and CMT *90% strategic* *10% delivery*	**Oversees the performance of the Council-wide Capital Programme** **Frequency:** Quarterly; **Author(s)**: Capital Hub; **Presented by**: Strategic Capital Board; **Presented to**: Full Council, Mayor & Cabinet and Corporate Management Team. **Description:** Overview of performance across each Capital Programme, with a specific focus on: ● *The **most** significant variances (in terms of timeline, scope, and budget);* ● *The **most** significant risks and issues (e.g. those with the largest potential impact etc.);* ● *The **most** significant successes; and,* ● *Overall benefit realisation and strategic alignment to LBC outcomes.* ***NB:** Reporting at this level is by exception.*
Portfolio level Capital Internal Control Board *80% strategic* *20% delivery*	**Provides assurance for the performance of each Capital Programme** **Frequency:** Quarterly; **Author(s)**: Capital Hub; **Presented by**: Capital Programme Manager; **Presented to:** Capital Internal Control Board. **Description:** Overview of performance across each Capital Programme, with a specific focus on: ● *Significant variances (in terms of timeline, scope and budget);* ● *Significant risks and issues (e.g. those with considerable potential impact etc.), **including** cross-functional implications of capital programmes;* ● *Recognised successes; and,* ● *Overall benefit realisation and strategic alignment to LBC outcomes.* ***NB:** Reporting at this level is by exception.*
Programme level Capital Programme Boards *40% strategic* *60% delivery*	**Accountable for the performance and operational delivery of their Capital Programme** **Frequency:** Monthly; **Author(s)**: Capital Programme Lead; **Presented by**: Capital Programme Lead or Head of Service; **Presented to:** Capital Programme Boards. **Description:** Overview of performance across each project within the Capital Programme, with a specific focus on: ● *General performance against the annual Capital Programme, including recognised successes;* ● *Any variances (in terms of timeline, scope and budget);* ● *Risks and issues which require proactive attention and mitigation; and,* ● *Benefit monitoring/ tracking to ensure strategic alignment to/ contribution to LBC outcomes.* ***NB:** Reporting at this level is by exception.*
Project level Capital Projects *10% strategic* *90% delivery*	**Responsible for the day-to-day operational delivery of individual projects** **Frequency:** Weekly; **Author(s)**: Project Lead; **Presented by**: Project Lead; **Presented to:** Project Board. **Description:** Overview of performance across a single project, clearly setting out: ● *Project timelines and milestones, project budget and spend, project risks and issues, and the anticipated benefits of the project as aligned to LBC outcomes; and,* ● *The operational impact of any forecast variances in time, scope, and cost, as well as key risks and issues.* **NB:** Project level reporting will drive each subsequent level of reporting. As such, its accuracy and validity is critical.

Reporting Framework: exception reporting & escalation approach

A range project level KPIs should be developed and **drive each subsequent level of reporting**. As such, it is important to define a clear **escalation approach** which outlines the aspects of project level reporting which should be **rolled up** to programme, portfolio and/ or executive level.

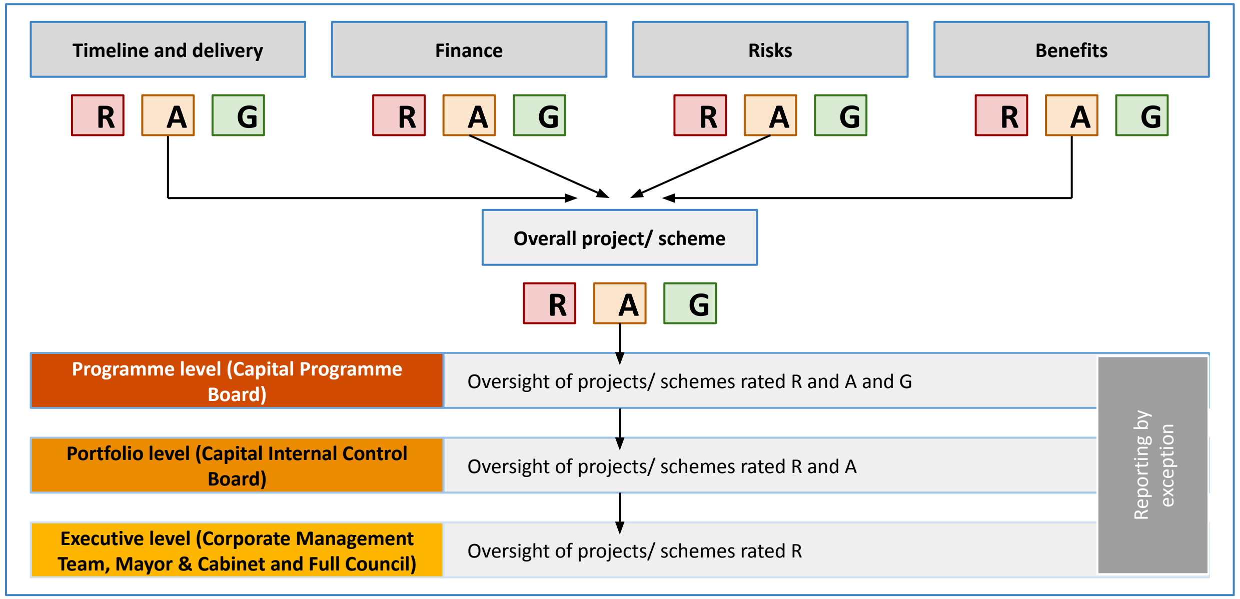
At project level, each metric category should be given a RAG status:

- For the **timeline and delivery category**, the overall RAG status of the category should be based on the **% of milestones which are behind schedule**. If 0 - 10% of milestones are behind schedule, the overall RAG status of the category should be Green. If 11 - 24% of milestones are behind schedule, the overall RAG status of the category should be Amber. If 25% + of milestones are behind schedule, the overall RAG status of the category should be Red.
- For the **finance category**, the overall RAG status of the category should be based on the **variance (%) between the total spend to date (actuals) and the expected spend to date (forecast)**. If this variance is between 0 - 10%, the overall RAG status of the category should be Green. If this variance is between 11 - 24%, the overall RAG status of the category should be Amber. If this variance is 25%+, the overall RAG status of the category should be Red. ***NB:** If the contingency allocation of the budget is used, this should automatically be escalated.*
- For the **risk category**, the overall RAG status of the category should be the **same as the highest rated risk**. For example, if the highest rated risk is 'Low' then the overall RAG status of the category should be Green. If the highest rated risk is 'Moderate' then the overall RAG status of the category should be Amber. If the highest rated risk is 'High' then the overall RAG status of the category should be Red. Additionally to this, all risks should be escalated in line with the Council-wide approach to risk; e.g. strategic risks should be escalated to SLT for review and those deemed necessary should be added to the strategic risk register.
- For the **benefits category**, the overall RAG status of the category should be based on the **% of benefits which are behind schedule**. If 0 - 10% of benefits are behind schedule, the overall RAG status of the category should be Green. If 11 - 24% of benefits are behind schedule, the overall RAG status of the category should be Amber. If 25% + of benefits are behind schedule, the overall RAG status of the category should be Red. ***NB:** Project Leads should make a judgement as to whether or not a benefit is behind schedule, based on the overall performance of the project (e.g. milestone slippage or scope reduction due to budget constraints).*

Once the RAG status for each metric category has been determined, the overall RAG status for the project should be calculated. **The overall RAG status for the project should be the same as the highest RAG status for any of the individual categories**. For example, if a project is rated Red in finance, Amber in risk and issues, and Green in timeline and delivery as well as benefits and outcomes, then the overall RAG status for the project should be Red.

The Capital Programme Board will review all projects regardless of their overall RAG status. The Capital Internal Control Board will only review projects rated Red or Amber. Corporate Management Team, Mayor & Cabinet and Full Council will only review Projects rated Red.

Metrics for each of the four metric categories should be outlined for each reporting level. Indicative KPI's for each of the four reporting categories are set out on the next slide.



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Reporting Framework: Capital Project level metrics

At the level of Capital Projects, reporting should include the metrics outlined below. Where necessary, these metrics should be accompanied by qualitative commentary to provide further insights, for example to highlight successes.

Metric Categories	Metrics
Overview	• **Overall RAG** - The overall RAG status for the project (for both the current and previous reporting periods) • **Metric category RAG** - The individual RAG status for each of the four reporting metric categories within the project (for both the current and previous reporting periods) • **Climate and Equality RAG** - The climate RAG status *and* the equality RAG status for the project (for both the current and previous reporting periods)
Timeline and delivery	• **Total milestones** - Total number of milestones within the project • **Milestone delivery status** - Total number and % of milestones within the project which are delivered/ undelivered to date • **Milestones achieved in last reporting period** - Total number of milestones within the project delivered in the last reporting period • **Milestones due in next reporting period** - Total number of milestones within the project due to be delivered in the next reporting period • **Milestone schedule status** - Total number and % of undelivered milestones within the project which are ahead of schedule, on schedule or behind schedule • **Milestone delivery vs. budget expenditure** - Total number and % of milestones within the project delivered vs. the total amount and % of the project budget spent • **Milestone slippage** - Total slippage of delivered *and* undelivered milestones within the project which are behind schedule (measuring the variance (in weeks) between the target delivery date vs. the actual delivery date (if delivered) or the forecast delivery date (if undelivered))
Finance	• **Overall *and* annual financial performance -** Total budget vs. forecast vs. actuals, *and* annual budget vs. forecast vs. actuals • **Forecast vs. actuals** - Actual spend of the project to date vs. the forecasted spend of the project to date, displayed month-on-month and cumulatively • **Budget variations** - Variations to the project's baseline budget throughout the project's lifetime (measuring variances between the baseline budget, previous budgets and the current budget) • **Funding** - Total amount and % of funding secured for the project vs. the total amount and % of funding still required • **Funding sources** - Total amount and % of funding secured for the project from different funding sources • **Contingency usage** - Total amount and % of contingency funds used to date vs. the total amount and % of contingency funds remaining • **Milestone delivery vs. budget expenditure -** **Repeated metric from the timeline and delivery reporting category*
Risks	• **Total risks/ issues -** Total number of risks/ issues within the project, categorised into different risk/ issue types • **Total risks/ issues by rating** - Total number of risks/ issues within the project rated High, Moderate and Low • **Risks/ issues due in next reporting period** - Total number of risks/ issues within the project due to be closed in the next reporting period • **Contingency usage** - **Repeated metric from the finance reporting category* • **Mitigations** - Mitigating actions for each risk/ issue within the project, along with their target closure dates
Benefits	• **Total benefits** - Total number of benefits due to be delivered by the project • **Benefit delivery status** - Total number and % of benefits within the project which are delivered/ undelivered to date • **Benefit schedule status** - Total number and % of undelivered benefits within the project which are ahead of schedule, on schedule or behind schedule • **Benchmarking -** Benchmarking data for each benefit indicating the LBC baseline, the LBC target, and the benchmark indicator from elsewhere • **Benefit slippage** - Total slippage of delivered *and* undelivered benefits within the project which are behind schedule (measuring the variance (in weeks) between the target delivery date vs. the actual delivery date (if delivered) or the forecast delivery date (if undelivered))

Appendices

Appendix A: Stakeholder interviews

Name	Position	Date of interview
Alan Layton *	Interim Finance Professional	21/11/2022 - Mobilisation session
Bridget Adjei	Acting Up Finance Manager for Finance, Investment & Risk	06/12/2022
Steve Wingrave	Interim Head of Estates, Asset Management and Facilities	07/12/2022
Reece Bowman	PMO Capital Board Lead	08/12/2022
Matthew Hallett	Head of Treasury and Pensions	08/12/2022
Nish Popat	Interim Head of Corporate Finance	09/12/2022, 22/12/2022
Nick Hibbard	Corporate Director for Sustainable Communities, Regeneration & Economic Recovery	15/12/2022
Jane West	Corporate Director of Resources	15/12/2022, 19/12/2022

* Weekly progress meetings held with Alan Layton throughout the duration of the project

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Appendix 3 - Capital Framework Improvement Plan Recommendations Tracker

Thematic Area	Recommendation	Update at November 2023	RAG Rating
Governance Model	Undertake a review and gap analysis of the existing capital governance model against the good practice blueprint set out in section 6.	The good practice blueprint by PWC showed the setup of a Capital Hub reporting to the Capital Internal Control Board, with separate Capital Programme Boards, Programme Leads and support from a Capital Finance Team and Finance Business Partnering Teams. It also outlined key stages of project scoping approval (including business cases) and 10 year budget setting. Over the course of 2022-23 and 2023-24 to date, significant issues with regards to capital have been addressed. Oversight of the Capital Programme was brought into the corporate finance team where a holistic and council wide approach is provided and which enables an improved approach to the way capital monitoring and budget setting is consolidated. This has allowed the Council to better profile its budgets over the life of the projects and to present a 5 years capital programme for 2024-29 (following 4 years in 2022-23 and a single year position previously). The Capital Internal Control Board is overseeing work to further improve capital governance arrangements and the preparation of business case templates in line with the Five Case Model. The Five Case Model is an approach for developing business cases recommended by HM Treasury and the UK Office of Government Commerce, and is widely used across central government departments and public sector organisations.	**Underway**
Governance Model	Consider the merits of establishing a 'Capital Hub' in the medium term. This function would have responsibility for overseeing and managing the Council's Capital Programme, the governance process and reporting and monitoring. It would also play a key role in designing, implementing and embedding good practice tools and templates across the authority with external support / guidance as appropriate.	The PWC report states that "A Capital Hub team typically comprises a Capital Programme Manager and Capital Programme Support Officer, who are responsible for overseeing and managing the Council's Capital Programme, the governance process, and reporting to the Capital Internal Control Board, Corporate Management Team, Mayor & Cabinet within the capital governance structure." The Council has no plans to set up a "Capital Hub", however the following is underway to support governance and centralise certain areas where deemed appropriate: The Capital Internal Control Board (chaired by the Director of Finance and includes the Director of Commercial Investment & Capital as a member) is overseeing Council wide improvements to capital project management, business cases, monitoring and reporting. The Education Capital Delivery Team has transferred from the Housing directorate to the Commercial Investment & Capital division (Resources directorate). The new Strategic Finance structure has added a new Finance Manager post for capital and property companies (reporting to the Chief Accountant) for increased financial capacity. The two current Principal Accountant posts (covering capital budgeting, monitoring, financing, valuations and statement of accounts reporting) will report to the Finance Manager as well as a new Accountant post for companies the Council is involved in.	**Underway**
Capacity & Capability	Assess existing capacity and capability across the authority in relation to the capital planning and programming, delivery, management and monitoring spectrum in line with good practice (see suggested roles and responsibilities in section 6), identifying gaps and actions to mitigate as appropriate.	The Strategic Finance structure has been reviewed in terms of capacity and skills mix required for both capital and revenue. The consultation has concluded and recruitment is now commencing to the Head of Strategic Finance posts. The new structure has added a new Finance Manager post for capital and property companies (reporting to the Chief Accountant) for increased financial capacity. The two current Principal Accountant posts (covering capital budgeting, monitoring, financing, valuations and statement of accounts reporting) will report to the Finance Manager as well as a new Accountant post for companies the Council is involved in. The structure also strengthens management capacity in the service finance teams that will provide finance business partnering support to directorates. The Education Capital Delivery Team has transferred from the Housing directorate to the Commercial Investment & Capital division (Resources directorate) to improve oversight and co-ordination of education related capital schemes.	**Underway**
Capacity & Capability	Secure CMT buy-in to the proposed capital governance framework and skills / capability and capacity action plan.	Further improvements to capital governance arrangements and business case templates in line with the Five Case Model have been drafted and reviewed by the Capital Internal Control Board. These will be taken through Directorate Management Teams and capital project related staff for comments before being finalised for CMT consideration and sign off.	**Underway**

Thematic Area	Recommendation	Update at November 2023	RAG Rating
Capacity & Capability	Design and roll-out a training event for officers and members involved in capital governance and capital project management.	Once the new capital governance arrangements and business case templates are finalised, then training across the Council will take place. Croydon has also expressed an interest to join with other London Councils to commission general capital training from CIPFA.	**To be progressed**
Business Case Led Approach	Design, implement and embed a business case-led approach for new capital investment needs and project development. This should be underpinned by the five-case model for developing business cases based on HM Treasury guidance in the Green Book (see section 7) and should build upon the existing capital bid process and pockets of good practice as appropriate.	The Capital Internal Control Board is overseeing work to further improve capital governance arrangements and the preparation of business case templates in line with the Five Case Model.	**Underway**
Business Case Led Approach	Officers within the Capital Hub (or equivalent) should be responsible for designing, implementing and embedding good practice tools and templates with external support / guidance as appropriate.	The Capital Internal Control Board is overseeing work to further improve capital governance arrangements, the preparation of business case templates and the use of Verto for capital project management, monitoring and reporting.	**Underway**
Reporting & Monitoring	Develop a more robust capital reporting framework, underpinning the capital governance model approved by CMT, that introduces a standardised and consistent reporting approach for capital programmes. This framework should comprise four reporting levels and cover four key metric categories: timeline and delivery; finances; risks, and benefits (see section 8).	The Council now has a more standardised, consistent and automated programme and project monitoring framework based on EPPMS (Electronic Project Proposal Management System). The Council has implemented Verto as its preferred EPPMS during 2023 with accompanying communication and training for project managers and key decision-makers across the Council.	**Underway**
Reporting & Monitoring	Metrics / KPIs for each of the four metric categories should be outlined for each reporting level building on the project level reporting good practice example provided on slide 30. Reporting ambitions and indicative templates should inform the specifications for, and implementation of, the new EPPMS and form part of both pre and post EPPMS training on good capital project management.	The Verto project management system has been implemented on an "agile" basis, to support faster commencement of roll-out across the Council (with capital project management being just one part of wider project management areas that the system will support across the Council). The metrics/KPIs and reporting formats will be continously improved, including through feedback from capital project leads using the system.	**To be progressed**