

# General Purposes & Audit Committee Agenda



To: Councillor Stephen Mann (Chair)  
Councillor Joy Prince (Vice-Chair)  
Councillors Clive Fraser, Patsy Cummings, Pat Clouder, Mary Croos,  
Jan Buttinger, Oni Oviri, Ian Parker and Steve Hollands

Co-optees: Muffaddal Kapasi and Nousheen Hassan

Reserve Members: Councillors Maddie Henson, Toni Letts, Jamie Audsley,  
David Wood, Sherwan Chowdhury, Jason Cummings, Badsha Quadir,  
Stuart Millson and Simon Brew

A meeting of the **General Purposes & Audit Committee** which you are hereby summoned to attend, will be held on **Thursday, 4 April 2019** at **6.30pm** in **Council Chamber, Town Hall, Katharine Street, Croydon, CR0 1NX**

JACQUELINE HARRIS BAKER  
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[www.croydon.gov.uk/meetings](http://www.croydon.gov.uk/meetings)  
Wednesday, 27 March 2019

Members of the public are welcome to attend this meeting.  
If you require any assistance, please contact the person detailed above, on the righthand side.

N.B This meeting will be paperless. The agenda can be accessed online at [www.croydon.gov.uk/meetings](http://www.croydon.gov.uk/meetings)

## **AGENDA – PART A**

**1. Apologies for Absence**

To receive any apologies for absence from any members of the Committee.

**2. Minutes of the Previous Meeting (Pages 5 - 10)**

To approve the minutes of the meeting held on Thursday 6 December 2018 as an accurate record.

**3. Disclosure of Interests**

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

**4. Urgent Business (if any)**

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

**5. Grant Thornton Reports (Pages 11 - 42)**

To receive the Housing Benefit Subsidy Claim Certification, the Audit Plan 2018/2019 General Fund and the Audit Plan 2018/2019 Pension Fund.

**6. Presentation on an area of risk - Schools in Deficit (Pages 43 - 54)**

A presentation on schools in deficit.

- 7. Internal Audit, Charter, Strategy and Plan (Pages 55 - 74)**  
The report of the Internal Audit Charter, Strategy and the Plan of audit work for 2019/20 is attached.
- 8. Internal Audit Update Report (Pages 75 - 94)**  
This report details the work completed by Internal Audit so far during 2018/19 and the progress made in implementing recommendations from audits completed in previous years.
- 9. Anti-Fraud Update Report (Pages 95 - 100)**  
This report details the performance of the Council's Corporate Anti-Fraud Team (CAFT) and includes details of the team's performance together with an update on developments during the period 1 April 2018 – 31 January 2019.
- 10. Corporate Risk Register (Pages 101 - 120)**  
The report updates the General Purposes & Audit Committee Members on the corporate risk register as at 4 April 2019.
- 11. General Purpose and Audit Committee Draft Annual Report 2018-2019 (Pages 121 - 132)**  
The General Purposes and Audit Committee Draft Annual Report 2018-2019 is attached.
- 12. In-year Appointments (Pages 133 - 136)**  
This report is to note the changes to appointments.
- 13. Exclusion of Public and Press**  
The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:  
  
"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

## **PART B**

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## General Purposes & Audit Committee

Meeting of the General Purposes & Audit Committee was held on Thursday, 6 December 2018  
at 6.30pm in F10 - Town Hall

### MINUTES

**Present:** Councillor Stephen Mann (Chair);  
Councillor Joy Prince (Vice-Chair);  
Councillors Jerry Fitzpatrick, Patsy Cummings, Jan Buttinger, Ian Parker and  
Steve Hollands, Badsha Quadir and Sherwan Chowdhury in addition to  
Nousheen Hassan (independent member)

**Also Present:** Cllr Simon Hall, Cabinet Member for Finance and Resources  
Nigel Cook, Head of Treasury and Pensions  
Malcolm Davis, Head of Risk  
David Hogan, Head of Anti-Fraud  
Simon Maddocks, Head of Internal Audit  
Annette McPartland, Head of Older Peoples' Social Care  
David Philips, Mazars  
Lisa Taylor, Director of Finance, Investment and Risk  
Sarah Warman, Director of Commissioning and Procurement  
Matt White, Head of Older People Commissioning

**Apologies:** Councillors Clive Fraser and Oni Oviri in addition to Muffaddal Kapasi

### PART A

29/18 **Minutes of the Previous Meeting**

The minutes of the meeting held on Wednesday 10 October 2018 were agreed as an accurate record subject to the addition of Cllr Simon Brew and Lisa Taylor, Director of Finance, Investment and Risk, being noted as in attendance.

30/18 **Disclosure of Interests**

There were no disclosures of interests.

31/18 **Urgent Business (if any)**

There were no items of urgent business.

Officers from the Adult Social Care team provided a presentation on the Adult Social Care market in Croydon (as provided in the agenda pack). This highlighted the gap between funding and demand and how this is expected to grow, the fragility of the care market and contributory factors. Risks were detailed including the lack of profitability of Adult Social Care beds and the impact this had including difficulties discharging patients from hospital.

Information was provided on what mitigation had been and was being taken by the Council to address the difficulties including prevention and dynamic purchasing to encourage higher quality care. It was highlighted that workforce development was key in terms of driving the quality of care. However, a national funding solution was still required which it was hoped would be provided in Green Paper due in December 2019.

In response to Member questions, officers provided the following points of clarification:

- Croydon had sought to protect itself from provider failure by putting in place diversity of provision and limiting exposure to any one provider. Contingency planning had also been put in place to address any provider failure;
- The KPMG cost of care review, currently being undertaken was to provide clarity on market rates for care;
- Croydon was paying about the average rate for home care, lower than the average for older, nursing and residential care and over the average for care for under 65s;
- The Council's planning was beginning to have an impact; still managed to provide care despite budgetary pressures and most of the care provided was rated as good. Resident feedback also demonstrated satisfaction with the quality of care provided;
- In order to attract care workers, Croydon had become an ethical care provider. This meant offering the London Living Wage, agreed levels of training and support, zero hour contracts were no longer used and contracts with flexible, school hours etc were offered;
- The One Croydon Alliance had reduced the length of hospital stays resulting in benefit in terms of costs (longer stays in hospital were to be avoided as they resulted in greater frailty);
- It was noted that Brexit may exacerbate everything in the report;
- Care standards are set nationally by the Care Quality Commission (CQC). Croydon never placed with an inadequate provider. All in borough providers that were identified as needing improvement were visited with the CQC and their action plan considered. Croydon had its own quality monitoring which went further than the CQC. The Council's monitoring team was being restructured to be able to undertake repeat provider visits every 12 rather than every 18 months. This meant the Council had better intelligence than Ofsted which inspected every three years;

- All providers had to have a CQC registration in order to offer any form of personal care. The Council work closely with the CQC; inform the CQC of any concerns which has led to inspections being triggered; and
- Acknowledgement of the advantage of the Council developing its own workers and encouraging market entry by new workers. Apprenticeships were being highlighted. A workforce strategy was the next big piece. It was due early in 2019.

**RESOLVED:** Members resolved to note the content of the presentation and to thank officers.

### 33/18 Treasury Mid-Year Review

The Head of Treasury and Pensions introduced the item. It was highlighted that some commercial debt had been restructured which provided immediate cost savings in this financial year as well as going forward over the remaining life of the loans. It was noted that borrowing and investing was offering small marginal benefits; there were limited opportunities to make money. Whilst the costs of borrowing were at historic lows, only small returns were being made on investments.

In response to Member questions, officers provided the following clarification:

- The Council was avoiding doing anything significant in late February and March 2019 in order to limit exposure to any circumstances that would result from Brexit. Investments were only to be made in the short term and no new borrowings were to be made due to the risk of rate fluctuations as far as that could be possible;
- Funding from the European Investment Bank had been for school improvements and was established as a contract with a fixed interest rate. Contact was regular and it was not possible for the contract to be broken. However, it was noted that further rounds were less likely as the UK would no longer be a partner county;
- Borrowing had been restructured to get more reasonable rates whilst accounting procedures had allowed the premium charged to do this to be written off over 40 years which was the term of the loan. This is referenced above. However, other commercial debt providers were not so keen to take the same opportunities;
- The gap between actual debt outstanding and affordable/authorised debt represented loans to be taken to support future capital investment. The gap between the affordable limit and the authorised limit was to allow for contingency. For example, if there was an operational issue such as a problem with the banking services. The limits reflected the Council's budget restrictions. Noted that public debt was being offered at historically low rate levels; and
- Borrowing increased in year because this was phased based on need; borrowing only taken on when actually needed.

In response to Member questions, Cllr Hall, the Cabinet Member for Finance and Resources, provided the following clarification:

- The allocation of £100m for the acquisition of commercial investment properties and the approach to be taken for acquiring investment assets was set out in the Medium Term Financial Strategy as part of the Council's overall borrowings and expenditure. This was approved by Council at its meeting in October 2018. To mitigate risk, the approach taken to investments was characterised by diversity and longevity. The potential of the asset and income stream were considerations and important for risk management;
- Long term borrowing was being used to fund operational assets needed by the Council to achieve savings. These savings compensated for the interest being paid;
- An assessment of the Council's appetite for borrowing was undertaken as part of the budgeting process each year. There would be concern where the actual and approved/authorised borrowing limits were getting close. However, noted that these were still 20% apart. Also highlighted that it was the statutory role of the Section 151 Officer to ensure regulation and monitoring of borrowing which is why this came to the Committee twice a year as well as being included in the budget papers; and
- Agreed that it was possible to review the actual level of borrowing more frequently through inclusion in quarterly financial monitoring to Cabinet.

**RESOLVED:** the Committed resolved to note the content of the report and to endorse the continued implementation of the Council's Treasury Strategy Statement, Annual Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2018/2019 by the Executive Director of Resources (Section 151 Officer).

### 34/18 **Internal Audit Update Report**

The Head of Internal Audit introduced the item. The report provided an update on activity between April and October 2018. It was noted that work was advanced with 26 draft reports produced and over half the expected audit days had been delivered. There was a satisfactory assurance given based on work done to date. It was explained that Priority 1 recommendations continue to be followed-up until they are all implemented and for other recommendations until they are at least 80% complete even where these are from previous years.

In response to Member questions, officers clarified:

- Soft market testing was happening in advance of procurement of a new service to remove abandoned vehicles; and
- A Pay & Display tender was imminent.

**RESOVLED:** the Committee resolved to note the content of the report.

35/18 **Anti-Fraud Update Report**

**RESOLVED:** the Committee resolved to:

1. Note the Anti-Fraud activity of the Corporate Anti-Fraud Team for the period 1 April 2018 – 31 October 2018; and
2. Approve the revised Anti-Fraud and Corruption Strategy.

36/18 **Corporate Risk Register**

The Head of Risk introduced the item and noted that there had been no escalations or de-escalations since the report was last presented to the Committee.

**RESOLVED:** the Committee resolved to note the report.

37/18 **Council Meeting Dates**

The item was introduced by the Senior Democratic Services Officer who highlighted the Council and Cabinet dates in July 2019 would be transposed. Also that the Cabinet meeting in December 2019 would be moved back a week.

**RESOLVED:** the Committee resolved to approve on behalf of Council the schedule of Full Council meeting dates for 2019/20 as detailed in the report.

38/18 **Members' ICT Provision**

Cllr Simon Hall, the Cabinet Member for Finance and Resources, introduced the item and highlighted that the report and recommendations had resulted from cross party consultation. The recommendations recognised the importance of Member ICT equipment which is required to enable them to discharge their duties, would allow all Members to receive an £800 ICT allowance every four years and give newly elected Members parity with those who were re-elected and had already been in receipt of an ICT allowance. Representations had been received from Members from both parties regarding the need for an ICT upgrade in order to do their role. The allowance could be declined by Members who felt their equipment was sufficient. The ICT allowance would be subject to the same annual increase as all other aspects of the Scheme of Members' Allowances (benchmarked against staff wage increases). It was also noted that the whole Scheme of Members' Allowances would be reviewed in 2022. It had been agreed this would be an allowance as opposed to a reimbursement. It was noted this would be paid in December 2018.

**RESOLVED:** the Committee resolved to:

1. Approve the adoption of the revised Scheme of Members' Allowances detailed in Appendix A (with the amendment to remove the word 'by-election' from the description 'Members newly elected in 2017');
2. Note in relation to these proposals, any adjustment to allowances will be by reference to the annual local government staff pay settlement as agreed in July 2018; and
3. Authorise the Director of Law and Governance to comply with the necessary statutory publicity requirements arising from the approval of revised Scheme of Members' Allowances.

39/18 **Exclusion of Public and Press**

There was no requirement for this item.

The meeting ended at 8.00pm

**Signed:**

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**Date:**

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Lisa Taylor  
Director of Finance, Investment and Risk and s151 Officer  
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Bernard Weatherill House  
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Croydon

28 February 2019

Dear Lisa

## Certification work for the London Borough of Croydon for the year ended 31 March 2018

We are required to certify the Housing Benefit Subsidy Claim submitted by the London Borough of Croydon ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HBCOUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit Subsidy Claim for the financial year 2017/18 relating to the subsidy claimed of £189 million. Further details are set out in Appendix A.

We identified two issues from our certification work which we wish to highlight for your attention. Additional testing was completed in one area, which was claimant income, and from this work we identified that the extrapolated financial impact on the claim from the errors found, which we have reported to the DWP, was £159. We also identified issues with the reconciliation cells not equalling the relevant Headline Cells, as required by the Claim Form, and the total value of these differences was £2,506.

As a result of the errors identified, the claim was qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £24,894. This is set out in more detail in Appendix B.

Yours sincerely

A handwritten signature in blue ink that reads "Grant Thornton UK LLP".

Grant Thornton UK LLP

## Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing Benefits Subsidy Claim	£188,567,131	No	N/A	Yes	Qualification letter reported errors found in several areas, more details on which can be seen below.

### Findings from Certification of Housing Benefits Subsidy Claim

#### Claimant Income

In previous years we have identified issues in the calculation of the applicable Claimant Income for Rent Allowance Claims. Whilst no issues were identified from our initial testing in 2017-18, our additional testing identified one case where benefit had been overpaid, leading to an extrapolated error of £159. No other issues were identified from the testing in this area, but the error means that additional testing will be required in this area in 2018-19.

#### Reconciliations between Headline Cells and Reconciliation Cells

Within the Claim Form there are cells which are meant to reconcile with one another, to confirm that the value in the headline cells is consistent with the analysis across the detailed cells, where appropriate. When reviewing these cells we identified minor differences across each of the benefit types, as can be seen in the table shown below:

Claim cell:	£ amount:	Claim – reconciliation cell:	£ amount:	Difference:
<b>011 – Non HRA Rent Rebates</b>	£13,758,505	037	£13,758,499	£6
<b>055 – Rent Rebates</b>	£38,410,253	077	£38,410,485	(£232)
<b>094 – Rent Allowance</b>	£142,791,060	130	£142,788,792	£2,268

The Council should look to ensure that these pairs of cells are consistent moving forward to provide reassurance that the Claim Form has been correctly prepared.

#### Recommended actions for officers

We recommend that the Council, as part of its internal quality assurance process, should increase its focus or level of testing in respect of the area where we identified errors from our testing. Under the HBCOUNT methodology, this area will require additional testing in 2018-19 to determine whether the actions undertaken by officers have been successful in resolving the issues identified.

## Appendix B: Fees for 2017/18 Certification Work

Claim or return	2015/16 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing Benefits Subsidy Claim (BEN01)	£24,894	£24,894	£24,894	N/A	N/A
<b>Total</b>	<b>£24,894</b>	<b>£24,894</b>	<b>£24,894</b>	<b>N/A</b>	

# External Audit Plan

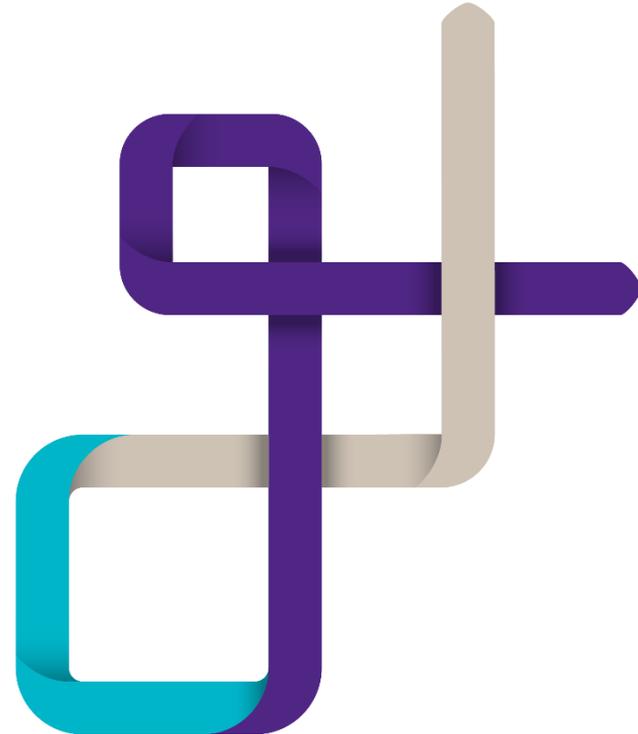
*Year ending 31 March 2019*

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London Borough of Croydon

April 2019

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

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the London Borough of Croydon ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the London Borough of Croydon. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the General Purposes and Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the General Purposes and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

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## Group Accounts

The Council is required to prepare group financial statements that consolidate the financial information of the following organisation:

- Brick by Brick Croydon Limited

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## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Fraud in revenue recognition – this risk has been rebutted for the Council as documented on page 5.
- Management override of controls
- Valuation of property, plant and equipment
- Valuation of the Pension Fund net liability
- Transfer of Properties from Council to Pension Fund

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

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## Materiality

We have determined planning materiality to be £22.572 million (PY £22.500 million) for the Council and £23,483 million (PY £23,483 million) for the Group, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1,129k (PY £1,000k).

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# Introduction & headlines (continued)

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## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- The Council's Financial Sustainability, including the Council's arrangements for addressing the risks arising from Brexit
- OFSTED Inspection of Children's Services

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## Audit logistics

Our interim visit will take place in January and February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £133,102 (PY: £172,860) for the Council, subject to the Council meeting our requirements set out on page 15.

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## Independence

We have complied with 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.

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# Key matters impacting our audit

## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

The Council has opted to voluntarily participate in the London Business Rates Retention Pilot Pool for 2018-19; this will see Revenue Support Grant and Top-up Grant replaced by a greater retained share of business rates income. Increasing demographic and inflationary pressures will further be met by an annual RPI increase in fees and charges and a 2.99% increase in core council tax.

### Changes to the 2018/19 CIPFA Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

The Council will need to determine the impact of these new standards on this year's Accounts, and ensure these impacts are clearly disclosed.

### The Impact of Brexit

The UK is expected to leave the European Union on 29 March 2019 (Brexit). The arrangements for the UK following our withdrawal are not yet clear. There is a risk that many aspects of life will be affected by Brexit and the uncertainty it is causing. There may be implications for financial planning for the Council resulting from this uncertainty including an impact on the value of the Council's assets and investments post 31 March 2019.

The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will review the Council's consideration of the risks of Brexit on the delivery of services and asset values as part of our Value for Money audit procedures.

# Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
London Borough of Croydon	Yes		Refer to pages 7 and 8 of this Plan for details of the risks identified.	Full scope UK statutory audit performed by Grant Thornton UK LLP
Brick by Brick Croydon Ltd	Yes		<ul style="list-style-type: none"> <li>Risk of fraudulent revenue recognition</li> <li>Management override of controls</li> <li>Work in progress activity not valid (Valuation Gross)</li> <li>Work in progress impairment not accounted for properly (Valuation Net)</li> <li>Operating expenses understated or not recorded in the correct period (completeness)</li> </ul> None of these risks are considered material risks at the group level.	Targeted review of specific material balances and reliance on the statutory audit performed by Grant Thornton UK LLP for the year ended 31 March 2019
Croydon Affordable Homes LLP	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP
Croydon Affordable Tenures LLP	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP
Croydon Care Solutions Ltd	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP
Octavo Partnership Ltd	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP
Croydon Enterprise Loan Fund Ltd	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP

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## Key changes within the group:

- The Council has set up two new bodies, Croydon Affordable Dwellings LLP and Croydon Affordable Homes (Taberner House) LLP. The first LLP will manage affordable housing developed for Croydon Affordable Housing by Brick by Brick Croydon Ltd.
- The second LLP will manage affordable housing that is currently being developed by a 3<sup>rd</sup> party developer on the Council's former Taberner House site.

## Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Management over-ride of controls</b>	Group and Council	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.	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	Group and Council	<p>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.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including the London Borough of Croydon, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for the London Borough of Croydon.</p> <p>In respect of Brick by Brick Croydon Ltd, whilst we are not able to specifically rebut the revenue recognition risk, as the level of revenue received by Brick by Brick is not material, this risk does not have an impact on our audit approach for the group accounts.</p>	

# Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of Property, Plant and Equipment</b>	Group and Council	<p>The Council revalues its land and buildings on an rolling five-year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>As mentioned earlier in the Plan, the potential impact of Brexit may also have an impact on the valuations included within the Accounts, and the Council will need to work closely with their experts to ensure any impact is reflected within the Accounts.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. This will include ensuring the impact of Brexit is considered as part of this assessment.</li> <li>• evaluate the competence, capabilities and objectivity of the valuation experts</li> <li>• Write to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>• evaluating 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.</li> </ul>
<b>Valuation of the Pension Fund net liability</b>	Group and Council	<p>The Council'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</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£97 million in the Council's Statement of Financial Position) and the sensitivity of the estimate to changes in key assumptions. Again Brexit could have an impact on the values included within the Accounts at year end so this will need to be factored into the considerations as well.</p> <p>We therefore identified valuation of the Council'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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Pension Fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Pension Fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test 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;</li> <li>• undertake 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. We will ensure Brexit has been considered when arriving at the values included within the Accounts.</li> </ul>

# Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Transfer of Properties from Council to Pension Fund</b>	Group and Council	During the course of the year, the Council has agreed to transfer 346 houses into the Pension Fund, between November 2057 and April 2059. As a result of this pledge, the Council is seeking a reduced contribution rate over the course of the 40 years, which would be set by the Council's Actuary, Hymans Robertson LLP.	We will: <ul style="list-style-type: none"> <li>• review the legal advice obtained by the Council in respect of this transaction</li> <li>• consider the actuarial impact of the transfer on the Council's Contribution Rates, and the potential impact of this transfer on the Council's Defined Benefit Net Liability</li> <li>• consider the advice obtained by the Council and the Pension Fund over the risks attached to the transaction, given how far in the future the proposed transfer of properties is scheduled to be.</li> <li>• review the disclosures around the transfer to ensure they correctly reflect the transaction in both the main Council and Pension Fund Accounts.</li> </ul>

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

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 group's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

## Housing Benefit Expenditure

The Council has appointed Mazars as the auditor for the Housing Benefit Certification Claim where previously this work was completed by Grant Thornton, alongside our work on the main Accounts. Given this, there may be duplication of work rather than the cross efficiencies gained in previous years. The Council spends circa £160mil on Housing Benefits per year, and it has consistently identified a reasonable error rate in the performance of case assessments as previously completed under the Housing Benefit Certification work. Given this large expenditure, and propensity for error, we consider this a risk to the audit.

We therefore may need to complete additional work which is not currently included in the scale fee. Therefore an additional fee may be needed for this work.

# Materiality

## The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

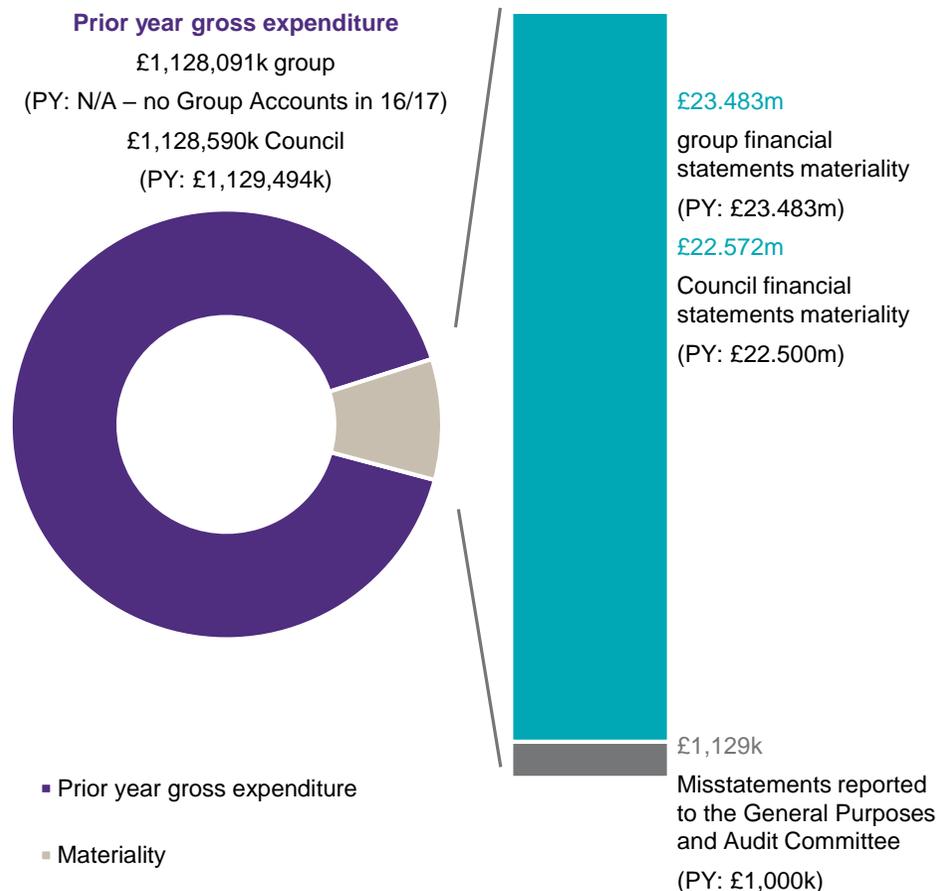
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £23.483 million (PY £23.483 million) for the group £22.572 million (PY £22.500 million) for the Council, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100,000 for areas for lower specific materiality level ie Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the General Purposes and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the General Purposes and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1,129k (PY £1,000k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the General Purposes and Audit Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

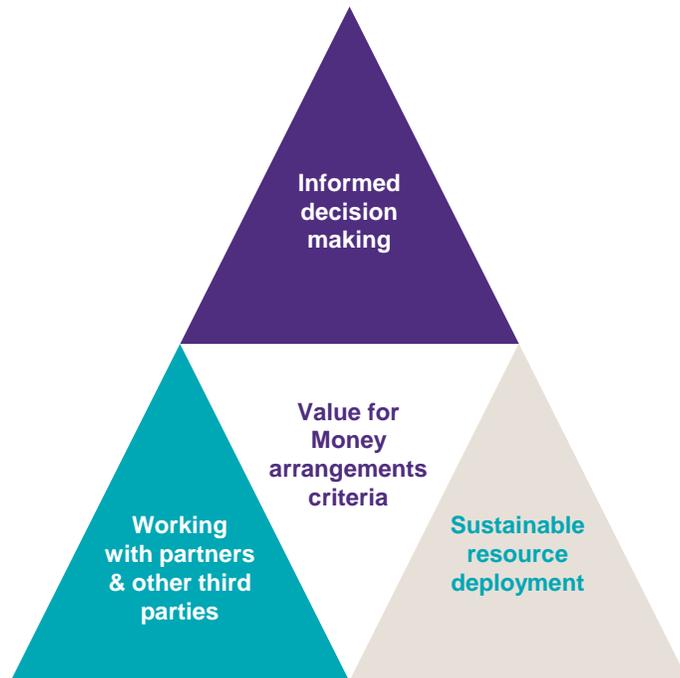
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Council 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 is supported by three sub-criteria, as set out below:



## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



### Ongoing Financial Sustainability

#### Risk

The Council is continuing to face pressure on its Budgets in a number of areas, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Council ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Council will need to monitor developments close as the end of March approaches.

#### Planned Response

To gain assurance over this risk we are planning to undertake work in the following areas:

- review the 2018-19 Outturn, including details of performance against both the Revenue and Capital Budgets;
- review progress against the 2019-20 financial plan up to the completion of our audit; and
- obtain an update on the Council'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 Council's workforce.

# Value for Money arrangements (continued)

## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



### OFSTED Inspection of Children's Services

#### Risk

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

#### Planned Response

To gain assurance over this risk we are planning to undertake work in the following areas:

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

# Audit logistics, team & fees



## Sarah Ironmonger, Engagement Lead

Sarah will be the main point of contact for the Chief Executive, the Section 151 Officer and Members. Sarah will share her wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the General Purposes and Audit Committee. Sarah will ensure our audit is tailored specifically to you and is delivered efficiently. Sarah will review all reports and the team's work.



## Matt Dean, Senior Audit Manager

Matt will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Matt will attend General Purposes and Audit Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Matt will work with Internal Audit to secure efficiencies and avoid any duplication, providing assurance for your Annual Governance Statement.



## Rebecca Lister, In-Charge Accountant

Rebecca will lead the onsite team and will be the day to day contact for the audit. Rebecca will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Rebecca will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

## Audit fees

The planned audit fees are £133,102 (PY: £172,860) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSA. In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change. There will be an additional charge in respect of the additional work required due to the Council holding listed debt, which makes the Council a Public Interest Entity (PIE), which required additional audit procedures over and above what would normally be required.

Additionally the aforementioned additional Welfare Benefit Expenditure work will generate an additional fee as yet to be levied.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

## Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
  - starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
  - seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 14). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

Working together to minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

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 December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following other services were identified:

Service	£	Threats	Safeguards
<b>Non-audit related</b>			
Subscription to CFO Insights	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	0	Self-Interest (because this is a recurring fee)	As this is the first year of this Index, the Council is being provided with a free Subscription, which would have a value of £12,500+VAT if a fee was charged. In comparison to the total fee for the audit of £133,102 and in particular relative to Grant Thornton UK LLP's turnover overall, this fee is not considered a significant threat. 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.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the General Purposes and Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings Report at the conclusion of the audit.

None of the services provided are subject to contingent fees.



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# External Audit Plan

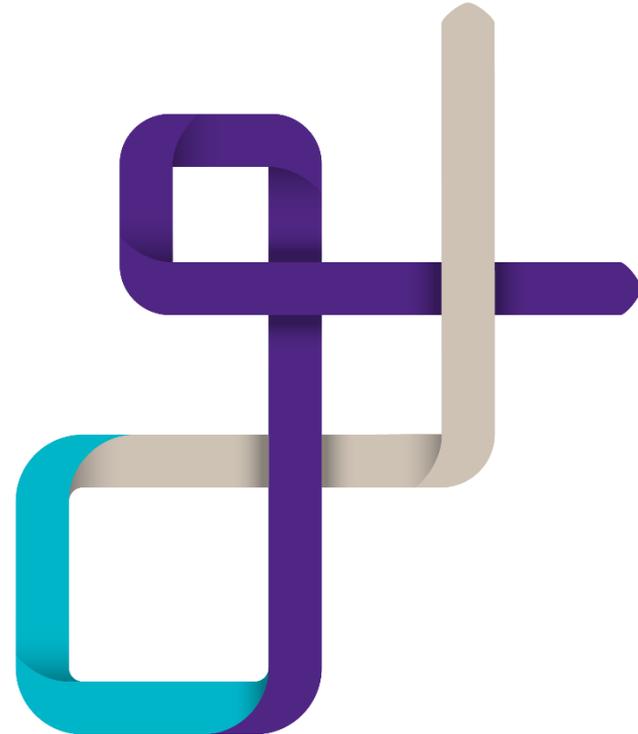
*Year ending 31 March 2019*

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London Borough of Croydon Pension Fund

2 March 2019

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## Section

1. Introduction & headlines
2. Key matters impacting our audit
3. Significant risks identified
4. Other matters
5. Materiality
6. Audit logistics, team & fees
7. Early Close
8. Independence & non-audit services

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

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the London Borough of Croydon Pension Fund ('the Fund') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the London Borough of Croydon Pension Fund. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the General Purposes and Audit Committee).

The audit of the financial statements does not relieve management or the General Purposes and Audit Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

---

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Fraud in revenue recognition – this risk has been rebutted for the Fund as documented on page 5
- Management over-ride of controls
- The valuation of Level 3 Investments is incorrect

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

---

## Materiality

We have determined materiality at the planning stage of our audit to be £11.394m (PY £11.314m) for the Fund, which equates to 1% of your net assets for the year.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £569k (PY £566k).

---

## Audit logistics

Our interim visit will take place in February and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £16,170 (PY: £21,000) for the Fund, subject to management meeting our requirements set out on page 9.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

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## Independence

We have complied with 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..

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# Key matters impacting our audit

## Factors

### SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated Funding Strategy Statements.

### Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its “interim solution” for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

### Changes to the 2018-19 CIPFA Code of Practice

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.

### The Pensions Regulator (tPR)

tPRs [Corporate Plan](#) for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

### Potential Implications of Brexit

As it currently stands, the UK is due to leave the European Union on the 29<sup>th</sup> of March 2019, and there is significant uncertainty of the impact of this on a number of assets of everyday life.

Brexit may well have an impact on the valuation of the Pension Fund Assets at the 31<sup>st</sup> of March 2019, depending on whether any deal is agreed and what that deal will look like. This may also have other impacts for the Pension Fund, including the Actuarial Assumptions considered as part of the IAS19 and IAS26 Exercises.

## Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.
- We will consider the potential impact of Brexit on the valuation of the Fund’s Assets, and obtain sufficient assurance over the valuations included within the Accounts at year end to ensure any impact from Brexit is correctly reflected.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	<p>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.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the London Borough of Croydon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including the Pension Fund, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for the London Borough of Croydon Pension Fund.</p>	
<b>Management over-ride of controls</b>	<p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Valuation of Level 3 investments</b></p>	<p>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.</p> <p>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 (£266 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>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.</p> <p>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>gain an understanding of the Pension Fund's process for valuing Level 3 investments and evaluate the design of the associated controls;</li> <li>review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments;</li> <li>undertake consideration of the competence, expertise and objectivity of any management experts used;</li> <li>review the qualifications of the expert used to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; and</li> <li>test the valuations by obtaining and reviewing audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date then rationalising those values to the values at 31 March 2019 with reference to known movements in the intervening period.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

# Other matters

## Other work

The Fund is administered by the London Borough of Croydon (the 'Council'), and the Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

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 Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# Materiality

## The concept of 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.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

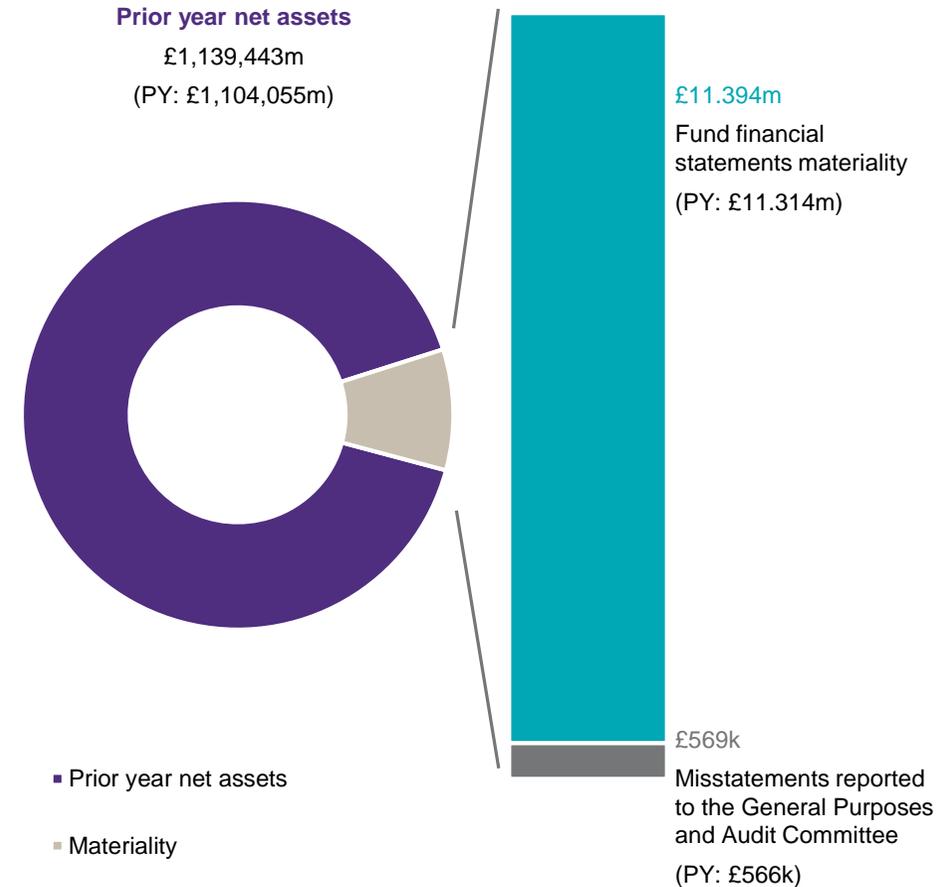
We have determined materiality at the planning stage of our audit to be £11.394m (PY £11.314m) for the Fund. We consider the proportion of the net assets of the Fund to be the appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to 1% of your actual net assets for the year ended 31 March 2018. We have set a separate lower materiality level for Related Party Transactions, which we have set at £500k, based on the circumstances involved.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the General Purposes and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the General Purposes and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £xm (PY £566k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the General Purposes and Audit Committee to assist it in fulfilling its governance responsibilities.



# Audit logistics, team & fees



## Sarah Ironmonger, Engagement Lead

Sarah will be the main point of contact for the Chief Executive, the Section 151 Officer and Members. Sarah will share her wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the General Purposes and Audit Committee. Sarah will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work.

## Matt Dean, Senior Audit Manager

Matt will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Matt will attend General Purposes and Audit Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Matt will work with Internal Audit to secure efficiencies and avoid any duplication with work that has already been performed.

## Rebecca Lister, In-Charge Accountant

Rebecca will lead the onsite team and will be the day to day contact for the audit. Rebecca will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Rebecca will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

## Audit fees

The planned audit fees are £16,170 (PY: £21,000) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. There is no non-Code (as defined by PSAA) work planned. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations, should they occur, will need to be approved by PSAA.

# Early close

## Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts in England was brought forward to 31 July. Wales and Scotland currently have different deadlines but there is convergence towards earlier close. This is a significant challenge for Pension Funds and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors there is a shorter period to complete our work and an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on the previous page). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

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# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

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 December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. No other services were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member firms will be included in our Audit Findings report at the conclusion of the audit.



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# GPAC Meeting Schools in Deficit

Shelley Davis (Interim) Director of Education and Youth Engagement  
Kate Bingham (Interim) Head of Finance, Children, Families and Education

*4<sup>th</sup> April 2019*

# National averages - schools in deficit

- **Almost one in three (30.3%) of local authority (LA) maintained secondary schools were in deficit in 2017-18** – almost four times that of 2014 (8.1 per cent).
- **The average secondary school deficit was nearly half a million pounds (£483,569).**
- **Significantly, there is a marked contrast between the proportion of secondary schools and primary schools in deficit** – only 8% of primaries in 2017-18.
- **Some schools have very large deficits:** 1 in every 10 LA secondary school has a deficit of over 10% of their total income.
- **The proportion of special schools in deficit has nearly doubled since 2014 (to 10.1%),** with an average deficit of nearly a quarter of a million pounds (£225,298).

# Croydon Schools in deficit



- As at Quarter 3 there are 13 of our 52 maintained schools in deficit which is 25%
  - 54% are primary and 23% are secondary
- The total deficit amounts to £4.5m with (£3.9m in the secondary schools)
- The schools are broken down according to risk
  - 3 High risk schools (all secondary)
  - 7 Medium risk schools
  - 3 Low risk schools

## Croydon Schools in deficit as at Quarter 3 2019

School Name	Balance b/fwd from 2017/18	Projected in-year surplus/(deficit)	Projected c/fwd balance
Virgo Fidelis	-£1,267,621	-£422,017	-£1,689,638
St Andrew's CE School	-£658,730	-£738,534	-£1,397,264
Archbishop Tenison's High	-£625,848	-£242,311	-£868,159
Norbury Manor Primary	-£139,825	-£12,359	-£152,184
All Saints CE Primary School	-£97,797	-£15,057	-£112,854
The Minster Nursery & Infant School	£12,992	-£83,625	-£70,633
St Joseph's Infants School	£21,342	-£77,246	-£55,904
Selhurst Early Years & Children's Centre	-£8,831	-£46,291	-£55,122
Winterbourne Infants	-£6,775	-£26,529	-£33,304
Crosfield Nursery and Children's Centre	£466	-£28,942	-£28,476
Margaret Roper RC Primary School	£221	-£20,049	-£19,828
The Hayes Primary School	-£27,885	£18,611	-£9,275
Saffron Valley Collegiate	£154,899	-£159,505	-£4,606
<b>Total</b>	<b>-£2,643,392</b>	<b>-£1,853,854</b>	<b>-£4,497,247</b>

# 3 High Risk Schools

School Name	Balance b/fwd from 2017/18	Projected in-year surplus/(deficit)	Projected c/fwd balance	Deficit as a % of revenue income
<b>Virgo Fidelis</b>	-£1,267,621	-£422,017	-£1,689,638	46.6%
Large b/fwd deficit & in year deficit; School has seen a falling number on roll				
<b>St Andrew's CE School</b>	-£658,730	-£738,534	-£1,397,264	51.5%
Large deficit which will remain with the LA; Action being taken to limit the deficit increasing in the remaining years of the school				
<b>Archbishop Tenison's High</b>	-£625,848	-£242,311	-£868,159	19.6%
Large b/fwd deficit & in year deficit; Popular & oversubscribed school with Opportunity for additional pupils & further expansion of the school being considered by the Dioceses				

# 7 Medium Risk Schools

School Name	Balance b/fwd from 2017/18	Projected in-year surplus/(deficit)	Projected c/fwd balance	Deficit as a % of revenue income
<b>Norbury Manor Primary</b>	-£139,825	-£12,359	-£152,184	6.5%
Recent Ofsted awarded Good and Outstanding in the Early years resulting in a positive impact on pupil numbers				
<b>All Saints CE Primary School</b>	-£97,797	-£15,057	-£112,854	5.4%
Large b/fwd deficit smaller in year deficit; increase in pupil numbers				
<b>The Minster Nursery &amp; Infant School</b>	£12,992	-£83,625	-£70,633	3.5%
Falling pupil figures but potential opportunities with Junior school on same site				

# 7 Medium Risk Schools (cont'd)

School Name	Balance b/fwd from 2017/18	Projected in-year surplus/(deficit)	Projected c/fwd balance	Deficit as a % of revenue income
<b>St Joseph's Infants School</b>	£21,342	-£77,246	-£55,904	5.5%
Restructure resulted in redundancy costs savings to be realised in future year				
<b>Selhurst Early Years &amp; Children's Centre</b>	-£8,831	-£46,291	-£55,122	9.6%
Awaiting guidance on future of maintained nursery schools. A restructure has already been completed				
<b>Winterbourne Infants</b>	-£6,775	-£26,529	-£33,304	1.4%
Potential opportunities with the junior school				
<b>Crosfield Nursery and Children's Centre</b>	£466	-£28,942	-£28,476	3.1%
Awaiting guidance on future of maintained nursery schools. Potential for school is yet to restructure				

# 3 Low Risk Schools

School Name	Balance b/fwd from 2017/18	Projected in-year surplus/(deficit)	Projected c/fwd balance	Deficit as a % of revenue income
<b>Margaret Roper RC Primary School</b>	£221	-£20,049	-£19,828	1.7%
Strong plan for moving to balanced position				
<b>The Hayes Primary School</b>	-£27,885	£18,611	-£9,275	0.5%
In-year balanced position deficit is c/f from prior year				
<b>Saffron Valley Collegiate</b>	£154,899	-£159,505	-£4,606	0.1%
Converting to academy any deficit will be refunded by DfE as it is not a sponsored academisation				

# Existing controls



- Schools are requested to set a licence deficit plan – this includes a 3 year budget plan as to how the school will return to a balanced position
- Schools are met with by senior finance and education officers to discuss their deficit and their action plan for setting a balanced budget in the future
- Schools are required to submit monthly returns and their position is monitored
- Termly finance meetings for all maintained schools sharing best practice etc

# Emerging risks



- There are potentially two schools at risk of closure, their combined deficit amounts to £3m plus additional costs of closing a school (employee termination cost)
- Concerns for the LA are schools that are forced to become academies as any deficit will remain with the LA. In particular schools with RI Ofsted rating and are not voluntary aided/religious schools
- Lack of long-term funding solution for maintained nursery schools

# Future controls



- More enhanced benchmarking using tools currently under development with the DfE
- The LA can put in place an Interim Executive Board (IEB).
  - IEB's can be installed if a school has been placed in special measures or given notice to improve by Ofsted or has not complied with a warning notice from the LA. The powers of this are limited in terms of its financial benefit to the LA as it is effectively steering the school towards a form of collaboration with another education body

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# Agenda Item 7

<b>REPORT TO:</b>	<b>GENERAL PURPOSES &amp; AUDIT COMMITTEE</b> 4 April 2019
<b>SUBJECT:</b>	<b>Internal Audit Charter, Strategy and Plan</b>
<b>LEAD OFFICER:</b>	<b>Head of Internal Audit</b>
<b>CABINET MEMBER:</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Resources</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Internal Audit's work helps the Council to improve its value for money by strengthening financial management and supporting risk management. Strengthening value for money is critical in improving the Council's ability to deliver services helping the Council achieve all its visions and aims. The external auditor relies on the work from the internal audit programme when forming opinions and assessments of the Council's performance.	
<b>FINANCIAL IMPACT</b> The Internal Audit contract for 2019/20 is a fixed price contract of £383,000 and appropriate provision has been made within the budget for 2019/20.	

## 1. RECOMMENDATIONS

- 1.1 The General Purposes & Audit Committee is asked to approve the Internal Audit Charter (Appendix 1), Strategy (Appendix 2) and the plan of audit work for 2019/20 (Appendix 3).

## **2. EXECUTIVE SUMMARY**

- 2.1 The current UK Public Sector Internal Audit Standards came into effect on 1 April 2013. To help with the Council's compliance with these standards the Council's internal audit charter (appendix 1) and strategy (appendix 2) are reviewed annually and are now attached for approval. These will be reviewed and brought back for approval each year to ensure that they remain up to date and relevant. Also attached is the work plan for internal audit for 2019/20 (appendix 3).

## **3. DETAIL**

- 3.1 In England, specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."
- 3.2 The UK Public Sector Internal Audit Standards which apply to local and central government, the NHS and the three devolved governments came into force from 1<sup>st</sup> April 2013 and were further revised in 2016 and 2017. Compliance with these satisfies the requirements of the Accounts and Audit Regulations.
- 3.3 To help with the Council's compliance with these standards the Council's internal audit charter (appendix 1) and strategy (appendix 2) have been reviewed and are attached for approval. These will be reviewed and brought back for approval each year to ensure that they remain up to date and relevant. Also attached for approval is the work plan for internal audit for 2019/20 (appendix 3).
- 3.4 The work plan for 2019/20 follows a similar format to previous years and its make-up is as set out in the audit strategy. It aims to maximise the value from the internal audit resource available and to provide sufficient evidence to enable the Head of Internal Audit to give an opinion on the effectiveness of its risk management, control and governance processes.
- 3.5 The Council's Executive Leadership Team has reviewed and supports the work plan.

## **4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 4.1 The fixed price for the Internal Audit Contract is £383,000 for 2019/20 and there is adequate provision within the budget. There are no additional financial considerations relating to this report
- 4.2 Internal Audit's planning methodology is based on risk assessments that include using the Council risk register processes.

(Approved by: Ian Geary, Head of Finance, Resources & Accountancy)

## **5. LEGAL CONSIDERATIONS**

- 5.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that information provided in this report is necessary to demonstrate the Council's compliance with requirements imposed by Regulation 5 of the Local Government Accounts and Audit (England) Regulations 2015. The Council is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

(Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer)

## **6. HUMAN RESOURCES IMPACT**

- 6.1 There are no immediate human resource considerations arising from this report for LBC employees or workers.

(Approved by: Gillian Bevan, Head of HR, Resources)

## **7. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS**

- 7.1 When Internal Audit is developing the Annual Audit Plan or individual audit programmes the impacts of the issues above are considered depending on the nature of the area of service being reviewed. Issues relating to these impacts would be reflected in the audit reports and recommendations.

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**CONTACT OFFICER:** Simon Maddocks, Head of Internal Audit

**APPENDICES:** Appendix 1 – Internal Audit Charter 2019  
Appendix 2 – Internal Audit Strategy 2019  
Appendix 3 – Internal Audit Plan 2019-20

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## Internal Audit Charter

**This Charter sets out the purpose, authority and responsibility of the Council’s Internal Audit function, in accordance with the mandatory UK Public Sector Internal Audit Standards.**

**The Charter will be reviewed annually and presented to the General Purposes & Audit Committee for approval.**

### Purpose

The Institute of Internal Auditors’ International Professional Practices Framework (IPPF) defines internal audit as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the Executive Leadership Team (ELT)<sup>1</sup> and in particular to the Chief Financial Officer to help her discharge her responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council’s financial affairs.

In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council’s risk management, control and governance processes.

The Institute of Internal Auditors (IIA) defines assurance as “services that involve the internal auditor’s objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor”.

### Mission and Core Principles

The IPPF’s overarching “Mission” for Internal Audit services is: “...to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

The “Core Principles” that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Be objective and free from undue influence (independent);

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<sup>1</sup> Fulfil the role of senior management - Public Sector Internal Audit Standards

- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

### **Authority**

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Internal audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge its responsibilities.

### **Responsibility**

The Council's Head of Internal Audit<sup>2</sup>, is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the General Purposes & Audit Committee<sup>3</sup>, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.

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<sup>2</sup> Fulfills the role of the Chief Audit Executive – Public Sector Internal Audit Standards

<sup>3</sup> Fulfills the role of the board – Public Sector Internal Audit Standards

- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud. To this end, all Council workers have a responsibility to notify the Head of Internal Audit of all instances of suspected or detected fraud or impropriety, as this may inform the annual audit opinion and the internal audit plan.

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

The remit of Internal Audit covers the entire control environment of the organisation. Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations in which it has a significant controlling interest, such as Local Authority Trading Companies. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as “Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”

## **Reporting**

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Executive Leadership Team (ELT) directly or via the Governance Board (GB) and then presented to General Purposes & Audit Committee (GPAC) for formal approval annually.
- The annual Internal Audit Plan is compiled by the Director of Governance taking account of the Council's risk framework and after input from members of ELT and other senior officers. It is then presented to ELT, GB and GPAC annually for noting and comment.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the GPAC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the GB and the GPAC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the GPAC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to GPAC.
- The appointment or removal of the Head of Internal Audit must be reported to and approved by ELT.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to the GB and the GPAC and will be included in the head of Internal Audit's annual report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

### **Independence**

The Head of Internal Audit has free and unfettered access to the following:

- Chief Financial Officer
- Chief Executive
- Chair of the General Purposes & Audit Committee (GPAC)
- Monitoring Officer
- Any other member of the Executive Leadership Team

The Head of Internal Audit is line managed by the Director of Finance, Investment & Risk. His independence is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the GPAC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the Audit & Governance Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed. Auditors are also frequently rotated to prevent over-familiarity or complacency which could influence objectivity.

In addition, both the Council and the audit contractor have stringent procedures in place relating to the acceptance of gifts and hospitality and the prevention of bribery.

To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months. Nor will any member of audit staff be involved in any audit work for any area in which they have had operational responsibility within the past 12 months.

The Head of Internal Audit has no additional responsibilities in addition to internal audit thereby ensuring the absence of any conflicts of interest.

### **Due Professional Care**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards (2017);
- The CIPFA Local Government Application Note (LGAN);
- The codes of ethics for any professional body that internal auditors are members of;
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Internal Audit is required to hold a professional qualification (CCAB or IIA) and be suitably experienced. The current Head of Internal Audit is a Chartered Fellow of the Institute of Internal Auditors (CFIIA) and has a Master of Science degree in Audit (MSc). He has more than 30 years internal audit experience.

The Head of Internal Audit will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications, experience and competencies required to perform and deliver its responsibilities.

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## Internal Audit Strategy

**This Strategy sets out how the Council's Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter.**

**The Strategy will be reviewed annually and presented to the General Purposes & Audit Committee for approval.**

### Internal Audit Objectives

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Executive Leadership Team (ELT)<sup>1</sup> and in particular to the Chief Financial Officer to support her in discharging her responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost effective internal audit service.

### Internal Audit's Remit

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit<sup>2</sup> the service will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the General Purposes & Audit Committee<sup>3</sup> to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;

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<sup>1</sup> Fulfil the role of senior management - Public Sector Internal Audit Standards

<sup>2</sup> Fulfils the role of the Chief Audit Executive – Public Sector Internal Audit Standards

<sup>3</sup> Fulfils the role of the board – Public Sector Internal Audit Standards

- Work closely with other assurance providers to share information and provide a value for money assurance service and;
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit must ensure that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

### **Service Delivery**

The Service will be delivered by the Council's strategic internal audit partner (currently Mazars) under the direction of the Council's Head of Internal Audit and supported by an in-house Governance Team. This provides flexibility of resource and mitigates many of the risks associated with delivering a professional internal audit service.

To ensure that the benefits of the Internal Audit service are maximised and shared as best practice, Croydon has established the APEX Audit & Anti-Fraud Partnership to work with other local authorities. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

### **Internal Audit Planning**

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Executive Leadership Team (ELT), Corporate leadership Team (CLT) and other management;
- The Council's Risk Register;
- The Council's priorities and Corporate plan;
- Outputs from other assurance providers (eg Ofstead or the External Auditor);
- Requirements as agreed in the joint working protocol with External Audit;
- Local and national issues and risks.

The Internal Audit Plan 2019-20 is composed of the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The

selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.

Internal Audit planning is already significantly based on the Council's risk register, resulting in 50% of the audit plan being based upon risks identified by management. Internal audit will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process to form a 'virtuous circle'.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of Digital infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud and Ad Hoc Work:** A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.

The internal audit plan for 2019-20 covers a period of twelve months. However, Croydon Council and local government as a whole is being subjected to continuous change and financial pressures that may result in changed priorities during the course of the year. Where this happens the Head of Internal Audit may need to flex the internal audit plan; any proposed significant changes to the plan will be reported to the senior management and the General Purposes & Audit Committee.

### **Follow-up**

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the General Purposes & Audit Committee on a quarterly basis.

Where progress is unsatisfactory or management fails to provide a satisfactory response to follow up requests, Internal Audit will implement the agreed escalation procedure.

## **Reporting**

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a regular basis. Summary reports are also provided to the General Purposes & Audit Committee four times per year. This includes the Head of Internal Audit's annual report that contributes to the assurances underpinning the Annual Governance Statement of the Council.

2019/20 Annual Audit Plan	Dept	Audit Days Budget 2019/20
<b>KEY FINANCIAL SYSTEMS REVIEWS</b>		
Business Rates	Resources	10
Banking	Resources	10
Community Care Payments	Health, Wellbeing & Adults	10
Council Tax	Resources	5
Creditors (inc P2P)	Resources	10
Debtors	Resources	10
Housing Benefits	Resources	10
Housing Rents & Accounting	Resources	5
Housing Repairs	Place	10
Main Accounting System	Resources	10
Parking Enforcement & Tickets	Place	10
Payments to Schools	Resources	5
Payroll	Resources	10
Pensions	Resources	10
Treasury Management	Resources	3
Follow-up of audits		10
<b>Total Key Financials Audits</b>		<b>138</b>
<b>DEPARTMENTAL RISK AUDITS</b>		
Age Assessment Judicial Reviews	Children, Families and Education	10
Alternative School Provisioning	Children, Families and Education	10
Forecasting and Financial Planning - Childrens and Adults *	Children, Families and Education	5
Partnership Governance	Children, Families and Education	10
Placements - Looked After Children	Children, Families and Education	15
S17 Expenditure	Children, Families and Education	15
Special Education Needs	Children, Families and Education	10
Financial Assessments - Charging Policy	Gateway, Strategy and Engagement	10
Gateway Budget and Impact on Other Services	Gateway, Strategy and Engagement	10

Letting Allocations	Gateway, Strategy and Engagement	10
North Croydon Gateway Locality Pilot	Gateway, Strategy and Engagement	10
Peoples ICT Project - Stockcheck of Progress	Gateway, Strategy and Engagement	10
Placements in Housing Private Accommodation	Gateway, Strategy and Engagement	10
Supply of Housing Private Accommodation	Gateway, Strategy and Engagement	10
Adult Social Care Waiting Lists	Health, Wellbeing & Adults	10
Brokerage and Placements	Health, Wellbeing & Adults	15
Care Market Failure	Health, Wellbeing & Adults	10
Forecasting and Financial Planning - Childrens and Adults *	Health, Wellbeing & Adults	5
One Croydon Alliance - Benefits and Integration	Health, Wellbeing & Adults	15
Public Health - Accounting for expenditure outside of the Public Health Division	Health, Wellbeing & Adults	10
S75 Agreements	Health, Wellbeing & Adults	10
Sheltered Accommodation	Health, Wellbeing & Adults	10
Transition from Childrens Services to Adults	Health, Wellbeing & Adults	10
Bringing Services in-House: Parks Service	Place	10
External Funding Team	Place	10
Fire Safety - Housing Stock	Place	10
Food Safety - Data Quality	Place	10
Growth Zone - Performance Management and Benefits Realisation	Place	15
Highways Contract Management	Place	10
Highways Inspections	Place	10
Housing Grounds Maintenance	Place	10
Parks Health & Safety	Place	10
SLWP / Veolia	Place	10
Tree Audit	Place	10
Agency Staff - Tenure and Monitoring	Resources	10
Arms Length Companies	Resources	10
Croydon Equipment Solutions	Resources	10
Debt Collection - In-house	Resources	10
Enforcement Agents	Resources	10

Expense and Overtime Payments to Staff	Resources	10
Fairfield Halls Delivery (BXB Management)	Resources	10
Freedom of Information Requests and Subject Access Requests	Resources	10
Investment Property Acquisitions	Resources	10
Land & Buildings - Asset Strategy	Resources	10
MTFS	Resources	10
MyResources - Business Change	Resources	10
Risk Management	Resources	10
Staff Code of Conduct	Resources	10
Staff Debt	Resources	10
Follow up of audits		50
<b>Total Departmental Risk Register Audits</b>		<b>555</b>
<b>COMPUTER AUDITS</b>		
IT Policies & Compliance with Technical Code of Practice & Computer Misuse Act	Resources	10
Uniform Application	Resources	10
Northgate iWorld Application	Resources	10
Azure Backup Application	Resources	10
Operating System Audits X 2	Resources	20
ITAL Governance	Resources	20
Follow up of audits		10
<b>Total Computer Audits</b>		<b>90</b>
<b>CONTRACT AUDITS</b>		
Major Capital Programme Commissioning & Management	Place	25
Mulally Contract Management	Place	10
Sprinklers Programme	Place	10
GBW Contract Management	Place	10
Regeneration Project Management	Place	10
GLL Leisure Contract Management	Place	10
Various Contract Audits	-	20
Follow-up of audits		10

Total Contract Audits		105
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<b>SCHOOLS AUDITS</b>		
Crosfield Nursery and Selhurst Early Years	Children, Families and Education	5.5
Coulsdon Nursery	Children, Families and Education	5.5
Beulah Juniors	Children, Families and Education	5.5
All Saints C of E Primary School	Children, Families and Education	5.5
Elmwood Infants School	Children, Families and Education	5.5
Heavers Farm School	Children, Families and Education	5.5
Kenley Primary	Children, Families and Education	5.5
Margaret Roper Catholic Primary	Children, Families and Education	5.5
Minster Nursery and Infant School	Children, Families and Education	5.5
Norbury Manor Primary School	Children, Families and Education	5.5
Selsdon Primary School	Children, Families and Education	5.5
St Joseph's Federation	Children, Families and Education	5.5
Winterbourne Nursery and Infants	Children, Families and Education	5.5
Virgo Fidelis Convent Senior School	Children, Families and Education	7.5
Follow-up of Schools audits		14.0
<b>Total Schools Audits</b>		<b>93</b>
<b>CONTINGENCY</b>		
Contingency for fraud including NFI and other ad hoc audits		27
Contingency for Grant Claims		14
<b>Total Contingency</b>		<b>41</b>
<b>ADMIN AND MANAGEMENT</b>		
Attendance at meetings, discussions, Audit Committee etc		25
Internal Audit Strategy and Plans Development		10
Year End Summary Report (Council-wide Head of Audit Report)		5
<b>Total Admin and Management</b>		<b>40</b>
<b>GRAND TOTAL BUDGET</b>		<b>1062</b>

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# Agenda Item 8

<b>REPORT TO:</b>	<b>GENERAL PURPOSES &amp; AUDIT COMMITTEE</b> 4 April 2019
<b>SUBJECT:</b>	<b>Internal Audit Update Report</b> <b>April 2018 to January 2019</b>
<b>LEAD OFFICER:</b>	<b>Simon Maddocks, Head of Internal Audit</b>
<b>CABINET MEMBER:</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Resources</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Internal Audit's work helps the Council to improve its value for money by strengthening financial management and supporting risk management. Strengthening value for money is critical in improving the Council's ability to deliver services which, in turn helps the Council achieve all its visions and aims. The external auditor relies on the work from the internal audit programme when forming opinions and assessments of the Council's performance.	
<b>FINANCIAL IMPACT</b> The Internal Audit contract for 2018/19 is a fixed price contract of £377,280 and appropriate provision has been made within the budget for 2018/19.	

## 1. RECOMMENDATIONS

- 1.1 The Committee is asked to note the Internal Audit Report for April 2018 to January 2019 (Appendix 1).

## 2. EXECUTIVE SUMMARY

2.1 This report details the work completed by Internal Audit so far during 2018/19 and the progress made in implementing recommendations from audits completed in previous years.

## 3. DETAIL

3.1 The Internal Audit report (Appendix 1) includes the following:

- a list of all audits completed so far in 2018/19; and
- lists of follow up audits completed and the percentage of priority one, and other audit recommendations implemented.

3.2 Internal Audit is responsible for conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole Council, including Members and all levels of management. It is not an extension of, nor a substitute for, good management. The Internal Audit Service is responsible for giving assurance on all control arrangements to the Full Council through the General Purposes & Audit Committee and the Chief Financial Officer (also known as the Section 151 Officer), who is currently the Director of Finance, Investment & Risk. It also assists management by evaluating and reporting to them the effectiveness of the controls for which they are responsible.

3.3 Based on the finalised internal audit reports published so far this year, an overall **Satisfactory Assurance** level can be given as **64%** (66% last year) of reports finalised to date received Substantial or Full assurance.

## 4. FOLLOW-UP REVIEWS

4.1 When Internal Audit identifies risks, recommendations are made and agreed with service managers to mitigate these. The Council then needs to ensure that action is taken to implement audit recommendations. Follow-ups will continue to be carried out until all priority 1 recommendations and 80% or more of priority 2 & 3 recommendations from each audit have been implemented. The performance in relation to the targets set for 2014/18 audits are shown Table 1.

**Table 1: Implementation of Audit Recommendations**

	2014/15	2015/16	2016/17	2017/18
Implementation of priority one recommendations at follow-up	100%	91%	90%	85%
Implementation of all recommendations at follow-up	94%	86%	85%	83%

## 5. PROGRESS AGAINST THE AUDIT PLAN

5.1 By 31 January **78%** (75% last year) of the 2018/19 planned audit days had been delivered and **47%** (56% last year) of the draft audit reports due for the year had been issued. The contractor has given assurances that the necessary

resources are available to deliver the internal audit plan in-year as usual.

## **6. PUBLICATION OF INTERNAL AUDIT REPORTS**

- 6.1 Following a decision at the June 2015 meeting of this committee, all finalised internal audit reports from the year 2015/16 onwards are published on the Council's public internet site. The reports can be seen at the following location: <https://www.croydon.gov.uk/democracy/budgets/internal-audit-reports/introduction>

## **7. CONSULTATION**

- 7.1 The outcome of all audit work is discussed and agreed with the lead service managers. The final reports and audit recommendations are sent for consideration by Departmental Management Teams (DMT). Details are circulated and discussed with Directors on a regular basis.

## **8. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 8.1 The fixed price for the Internal Audit Contract is £377,280 for 2018/19 and there is adequate provision within the budget. There are no additional financial considerations relating to this report
- 8.2 Internal Audit's planning methodology is based on risk assessments that include using the Council risk registers processes.

(Approved by: Ian Geary, Head of Finance, Resources and Accountancy)

## **9. LEGAL CONSIDERATIONS**

- 9.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that information provided in this report is necessary to demonstrate the Council's compliance with requirements imposed by Regulation 5 of the Local Government Accounts and Audit (England) Regulations 2015. The Council is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

(Approved by, Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance & Deputy Monitoring Officer)

## **10. HUMAN RESOURCES IMPACT**

- 10.1 There are no immediate human resources issues arising from this report for LBC employees.

(Approved by: Gillian Bevan, Head of HR, Resources)

**11. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER  
REDUCTION IMPACTS**

- 11.1 When Internal Audit is developing the Annual Audit Plan or individual audit programmes the impacts of the issues above are considered depending on the nature of the area of service being reviewed. Issues relating to these impacts would be reflected in the audit reports and recommendations.

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**CONTACT OFFICER:** Simon Maddocks, Head of Internal Audit

**BACKGROUND DOCUMENTS:** Internal Audit report for the period 1 April 2018 to 31 January 2019 (appendix 1)

# London Borough of Croydon

## Internal Audit Report for the period

### 1 April 2018 to 31 January 2019

#### **Confidentiality and Disclosure Clause**

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

The Report was prepared solely for the use and benefit of London Borough of Croydon and to the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

## Internal Audit activity

1. During the first ten months of the 2018/19 financial year the following work has been delivered:

- 78% of the 2018/19 planned audit days have been delivered
- 84 planned audits (excluding ad hoc and fraud work) commenced, either by setting up the files, attending scope meetings or by performing the audits. This was made up of:-
  - 64 system audits commenced and/or were completed;
  - 13 school audits commenced and/or were completed; and,
  - 7 computer audits commenced and/or were completed.

In addition:

- 8 new ad hoc or fraud investigations commenced and/or were completed.

### Internal Audit Performance

2. To help ensure that the internal audit plan supported the Risk Management Framework and therefore the Council Assurance Framework, the 2018/19 internal audit plan was substantially informed by the risk registers. The 2018/19 internal audit plan was presented to the General Purposes and Audit Committee on 15 March 2018.
3. Work on the 2018/19 audit plan commenced in April 2018 and delivery is now well underway.
4. Table 1 details the performance for the 2018/19 audit plan against the Council's targets. At 31 January 2019 Internal Audit had delivered 78% of the planned audit days and 47% of the planned draft reports. Although the planned drafts are behind target, there are a number of audits where the reports are close to being issued. Work has either commenced, is in progress or draft stage for over 90% of the audit plan.

**Table 1: Performance against targets**

Performance Objective	Annual Target	Year to Date Target	Year to Date Actual	Performance
% of planned 2018-19 audit days delivered	100%	79%	<b>78%</b>	▼
Number of 2018-19 planned audit days delivered	1050	830	<b>823</b>	▼
% of 2018-19 planned draft reports issued	100%	65%	<b>47%</b>	▼
Number of 2018-19 planned draft reports issued	89	58	<b>42</b>	▼
% of draft reports issued within 2 weeks of exit meeting	85%	85%	<b>88%</b>	▲
2018/19 % of priority one recommendations implemented at the time of the follow up audit	90%	90%	<b>69%</b>	▼
2018/19 % of all recommendations implemented at the time of the follow up audit	80%	80%	<b>65%</b>	▼
2017/18 % of priority one recommendations implemented at the time of the follow up audit	90%	90%	<b>85%</b>	▼
2017/18 % of all recommendations implemented at the time of the follow up audit	80%	80%	<b>83%</b>	▲

Performance Objective	Annual Target	Year to Date Target	Year to Date Actual	Performance
2016/17 % of priority one recommendations implemented at the time of the follow up audit	90%	90%	<b>90%</b>	►
2016/17 % of all recommendations implemented at the time of the follow up audit	80%	80%	<b>85%</b>	▲
2015/16 % of priority one recommendations implemented at the time of the follow up audit	90%	90%	<b>91%</b>	▲
2015/16 % of priority all recommendations implemented at the time of the follow up audit	80%	80%	<b>86%</b>	▲
% of qualified staff engaged on audit	40%	40%	<b>42%</b>	▲

### Audit Assurance

5. Internal Audit provides four levels of assurance as follows:

<b>Full</b>	The systems of internal control are sound and achieve all systems objectives and that all controls are being consistently applied.
<b>Substantial</b>	The systems of internal control are basically sound, there are weaknesses that put some of the systems objectives at risk and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk. (*Note - Substantial assurance is provided on School audits.)
<b>Limited</b>	Weaknesses in the systems of internal control are such as to put the systems objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
<b>No</b>	The system of internal control is generally weak leaving the system open to significant error or abuse and /or significant non-compliance with basic controls leaves the system open to error or abuse.

6. Tables 2 lists the audits for which final reports were issued from 1 April to 31 January 2019. Details of the key issues arising from these reports are shown in Appendix 1.

**Table 2: 2018/19 Final audit reports issued from 1 April 2018 to 31 January 2019:**

Audit Title	Assurance Level	Planned Year
<b>Non-school audits</b>		
GDPR in Schools	Limited	2018/19
Landlords Lettings Scheme (formerly Croylease)	Limited	2018/19
Libraries Income Collection	Limited	2018/19
Statutory Defence Against Highways and Other Claims	Substantial	2018/19
Parking CCTV	Substantial	2018/19
Discretionary Housing Payments	Substantial	2018/19
Leasehold Service Charge	Substantial	2018/19
Growth Zone	Substantial	2018/19

Audit Title	Assurance Level	Planned Year
Public Events	Substantial	2018/19
Coroner's Service	Substantial	2018/19
Leisure Contract Management	Substantial	2018/19
Capita Event Management	Substantial	2018/19
Third Party Support / Service Delivery	Substantial	2018/19
Access to IT	Substantial	2018/19
Cashiers (Cash Handling)	Full	2018/19
Audit Title	Assurance Level	Planned Year
School audits		
Virgo Fidelis Convent School	No	2018/19
Coulsdon C of E Primary School	Limited	2018/19
The Minster Junior School	Limited	2018/19
Regina Coeli Catholic Primary School	Limited	2018/19
Thomas More Catholic School	Limited	2018/19
Park Hill Infant School	Substantial	2018/19
Ridgeway Primary School	Substantial	2018/19

#### **Follow-up audits – effective implementation of recommendations**

- During 2018/19 in response to the Council's follow-up requirements, Internal Audit has continued following-up the status of the implementation of the 2015/16, 2016/17, 2017/18 audits.
- Follow-up audits are undertaken to ensure that all the recommendations raised have been successfully implemented according to the action plans agreed with the service managers. Follow-ups will continue to be carried out until all priority 1 recommendations and 80% or more of priority 2 & 3 recommendations from each audit have been implemented.

Performance Objective	Performance (to date)					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Percentage of priority one recommendation implemented at the time of the follow up audit	100%	100%	91%	90%	85%	69%
Percentage of all recommendations implemented at the time of the follow up audit	96%	94%	86%	85%	83%	65%

The results of those for 2015/16, 2016/17, 2017/18 and 2018/19 audits that have been followed up are included in Appendixes 2, 3, 4 and 5 respectively.

- Appendix 2 shows the follow-up audits of 2015/16 audits undertaken to date and the number of recommendations raised and implemented. 86% of the total recommendations were found to have been implemented and 91% of the priority 1 recommendations which have been followed up have been implemented. The outstanding priority 1 recommendations are detailed below:

Audit Title	Executive Director Responsible	Assurance Level	Summary of issues arising in priority 1 recommendations

Audit Title	Executive Director Responsible	Assurance Level	Summary of issues arising in priority 1 recommendations
EMS Application	Jaqueline Harris-Baker	Limited	<p>A recommendation was raised due to the absence of an effective disaster recovery plan for the EMS application. The response to the follow up is that this is being worked on with Capita and a solution planned for January 2019.</p> <p><b>Response November 2018</b></p> <p>Work continues to move to a cloud-based DR solution which will deliver much improved recovery times. Much of the required infrastructure is now in place and the solution for the majority of systems should be complete by mid-July 2019, with the remainder due by mid-November 2019.</p>
ICT ~Service Delivery ITIL Framework	Jaqueline Harris-Baker	Limited	<p>A recommendation was raised as it was identified that the development of an appropriate Business Impact Review (BIR) to assist in the design of both the IT Service Disaster Recovery Plan (DRP) and the associated Business Continuity Plan (BCP) are currently at an embryonic stage and no DRP or BCP solutions have been recently tested as effective.</p> <p>The response to the follow up is that this is being worked on with Capita and a solution planned for January 2019.</p> <p><b>Response November 2018</b></p> <p>Work continues to move to a cloud-based DR solution which will deliver much improved recovery times. Much of the required infrastructure is now in place and the solution for the majority of systems should be complete by mid-July 2019, with the remainder due by mid-November 2019.</p>

10. Appendix 3 shows the 2016/17 follow-up audits undertaken to date and the number of recommendations raised and implemented. 85% of the total recommendations were found to have been implemented and 90% of the priority 1 recommendations which have been followed up have been implemented. The outstanding priority 1 recommendations are detailed below:

Audit Title	Executive Director Responsible	Assurance Level	Summary of issues arising in priority 1 recommendations
Adult Care Packages	Guy Van Dichele	Limited	<p>A priority 1 recommendation was raised as in ten out of fifteen instances sampled evidence could not be provided of approval of a care package by an individual or body with the correct delegated authority.</p> <p><b>Response February 2019</b></p> <p>A Virtual Complex Care Panel is in place which is working effectively and allows for the robust monitoring of new placements is in place and cases are being presented back to Panel for review to ensure decisions around care packages are correct for the individual and are successfully being implemented.</p> <p>Amendments to the Scheme of Delegation are still in progress.</p>
Contract Formalities and Storage of Contracts	Jaqueline Harris-Baker	Limited	<p>Three priority 1 recommendations were raised because based on sample testing formal contracts were not always in place, contracts were not held in the Deeds room for all contracts and electronic, signed definitive versions of the contract are not available to contract managers.</p> <p><b>Response in December 2018</b></p> <p>A Contracts and Deeds amnesty was held in December 2018 to get officers to share any contracts and deeds that they hold so that these can be scanned and securely stored and the Tender and Contract Regulations were being updated to provide clear guidance. For new contracts awarded, the Contract Management Plan has been established which is where all the key information about a contract is stored. Also information related to the Tender and the Contract are stored on the e-sourcing system.</p>

11. Appendix 4 shows the 2017/18 follow-up audits undertaken to date and the number of recommendations raised and implemented. 83% of the total recommendations were found to have

been implemented and 85% of the priority 1 recommendations which have been followed up have been implemented. The outstanding priority 1 recommendations are detailed below:

Audit Title	Executive Director Responsible	Assurance Level	Summary of issues arising in priority 1 recommendations
Abandoned Vehicles	Shifa Mustafa	No	<p>A priority 1 issue was raised as the records of reported abandoned vehicles on the Access 2003 database was incomplete, with images, links to '7 day' notices and the dates removed and outcomes not always being recorded.</p> <p>A priority 1 issue was raised as although the estimated contract value for abandoned vehicle removal is over £160k, there has been no tendering for this service and there is no contract in place between Tran-Support and the Council.</p> <p><b>Response provided in March 2019</b></p> <p>The first phase of system development for a replacement system provided by IDOX UNIFORM is complete and user acceptance testing is being undertaken, with the aim to roll out Phase 1 to officers in Late Summer 2019. An Excel based system is being used in the interim.</p> <p>The Service aims to have the specification for a procurement exercise finalised and market tested within the next 4-8 weeks.</p>
Pay and Display Meter Maintenance and Income Collection	Shifa Mustafa	Limited	<p>A priority 1 issue was raised the contract between NSL and the Council expired in 2015.</p> <p><b>Response provided in February 2019</b></p> <p>This is with Procurement with the tender due to be published imminently.</p>
Health Visiting	Guy Van Dichele	Limited	<p>A priority 1 issue was raised as while the Council receives monthly detailed reports on key performance indicators and has conducted a recent extensive six month Health Visiting Services Review, appropriate contract monitoring processes were not in place to obtain assurance of the general conditions in the S75 Agreement and the actual processes undertaken by CHS, including those for safeguarding.</p> <p><b>Response provided November 2018:</b></p> <p>The Service will be seeking this assurance at the S75 meeting, which will be minuted.</p>
Brokerage	Jaqueline Harris-Baker	Limited	<p>A priority 1 issue was raised as it was confirmed that providers outside of the signed Integrated Framework Agreement (IFA) were being used regularly for care provision of clients.</p> <p><b>Response provided November 2018:</b></p> <p>The IFA is being refreshed, which will address the issue of legacy provision.</p>

12. Appendix 4 shows the 2018/19 follow-up audits undertaken to date and the number of recommendations raised and implemented. 65% of the total recommendations were found to have been implemented and 69% of the priority 1 recommendations which have been followed up have been implemented. The outstanding priority 1 recommendations are detailed below:

Audit Title	Executive Director Responsible	Assurance Level	Summary of issues arising in priority 1 recommendations
Virgo Fidelis Convent School	Robert Henderson	No	<p>Priority 1 recommendations were raised because, the 'Financial Policies and Procedures Manual' had not been reviewed as required, the School's School Financial Value Standard self-assessment for 2017/18 was not properly approved and was not in line with the findings of this audit, some purchase orders were not available or were not properly authorised, and the Head Teacher did not have any oversight of lettings and copies of the lettings diary, any letting application forms and accompanying indemnity insurance evidence were not available at the time of audit.</p> <p><b>Response provided in March 2019</b></p> <p>A number of items have been to the Resources Committee, which are to be ratified by the full Governing Body. The issue regarding lettings has been discussed at Resources Committee, but has not yet been resolved.</p>

## Appendix 1: Key issues from 2018/19 finalised audits

Audit Title	Assurance Level & Number of Issues	Summary of key issues raised.
<b>Non School Audits</b>		
GDPR in Schools	Limited (Eight priority 2 issues)	No priority 1 issues
Landlords lettings Scheme (formerly Croylease)	Limited (Two priority 1, five priority 2 and one priority 3 issue)	A priority 1 issue was raised as current lease agreements were not in place for 5 of the 10 Croylease properties sampled. A priority 1 issue was raised as sample testing of 10 Croylease properties was unable in some cases to evidence the required gas safety or electrical inspections or fire safety certificates.
Libraries Income Collection	Limited (Two priority 1, two priority 2 and one priority 3 issue)	Two priority 1 issues were raised, one relating to the approval and control over the waiver of fines and the other relating to the lack of reconciliations between income collected and income banked and coded to Oracle ledger codes.
Statutory Defence Against Highways and Other Claims	Substantial (Three priority 2 and one priority 3 issue)	No priority 1 issues
Parking CCTV	Substantial (One priority 2 issue)	No priority 1 issues
Discretionary Housing Payments	Substantial (One priority 2 and two priority 3 issues)	No priority 1 issues
Leasehold Service Charges	Substantial (Two priority 3 issues)	No priority 1 issues
Growth Zone	Substantial (Three priority 2 issues)	No priority 1 issues
Public Events	Substantial (Four priority 2 and three priority 3 issues)	No priority 1 issues
Coroner's Service	Substantial (Three priority 2 issues)	No priority 1 issues
Leisure Centre Contract Management	Substantial (Two priority 2 issues.)	No priority 1 issues
Capita Event Management	Substantial (Three priority 2 issues)	No priority 1 issues
Third Party Support / Service Delivery	Substantial (One priority 2 issue)	No priority 1 issues
Access to IT	Substantial (Three priority 2 issues)	No priority 1 issues
Cashiers (Cash Handling)	Full (One priority 3 issue)	No priority 1 issues

Audit Title	Assurance Level & Number of Issues	Summary of key issues raised.
<b>School Audits</b>		
Virgo Fidelis Convent School	No (Eleven priority 1, thirteen priority 2 and three priority 3 recommendations)	Priority 1 recommendations were raised because a number of signed Governing Body minutes and accompanying papers were not available, the 'Financial Policies and Procedures Manual' had not been reviewed as required, the School's School Financial Value Standard self-assessment for 2017/18 was not properly approved and was not in line with the findings of this audit, the School did not have a plan in place to eliminate its deficit of £1.24m, two references were not obtained for all new starters, some governors were not included in the School's Single Central Record and DBS renewal checks were overdue for a number of staff, some purchase orders were not available or were not properly authorised, goods received checks were not always properly evidenced, invoices were not always evidenced as appropriately authorised, off-payroll payments had been made to an individual who would be deemed by HMRC to be an employee and the Head Teacher did not have any oversight of lettings and copies of the lettings diary, any letting application forms and accompanying indemnity insurance evidence were not available at the time of audit.
Coulsdon C of E Primary School	Limited (One priority 1, two priority 2 and five priority 3 recommendations)	A priority 1 recommendation was raised as examination of the School's central single record found that this did not include a newly appointed governor (appointed on 10 July 2018) and thus there was no evidence that their DBS check had been completed as required.
The Mister Junior School	Limited (One priority 1, five priority 2 and five priority 3 recommendations)	A priority 1 recommendation was raised as purchase orders for 7 of the sample of 15 transactions tested were raised subsequent to the invoices being received and one purchase order was not available. In addition, two of these showed no evidence of approval.
Regina Coeli Catholic Primary School	Limited (Two priority 1, two priority 2 and six priority 3 recommendations)	A priority 1 recommendation was raised as four governors were found to have out of date DBS checks. A priority 1 recommendation was raised as 10 out of 15 purchases selected for testing had purchase orders raised retrospectively to the receipt of the corresponding invoices.
Thomas More Catholic School	Limited (Fourteen priority 2 and four priority 3 recommendations)	No priority 1 recommendations
Park Hill Infant School	Substantial (Three priority 2 and three priority 3 recommendations)	No priority 1 recommendations
Ridgeway Primary School	Substantial (One priority 2 and six priority 3 recommendations)	No priority 1 recommendations

## Appendix 2 - Follow-up of 2015/16 audits (Incomplete follow ups only)

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
<b>Non School Audits</b>						
2015/16	Performance Monitoring Adult Social Care	Guy Van Dichele	Limited (2 <sup>nd</sup> follow up in progress)	9	3	33%
2015/16	EMS Application	Jaqueline Harris-Baker	Limited (6 <sup>th</sup> follow up in progress)	4	1	25%
2015/16	ICT Service Delivery ITIL Framework	Jaqueline Harris-Baker	Limited (4 <sup>th</sup> follow up in progress)	2	1	50%
2015/16	Looked After Children (placed in another LA area)	Robert Henderson	Substantial (3 <sup>rd</sup> follow up in progress)	6	4	66%
2015/16	Connected Croydon – Programme and Project Management	Shifa Mustafa	Substantial (2 <sup>nd</sup> follow up in progress)	4	2	50%
2015/16	Waste Recycling	Shifa Mustafa	Substantial (5 <sup>th</sup> follow up in progress)	3	1	33%
2015/16	Internal Network	Jaqueline Harris-Baker	Substantial (3 <sup>rd</sup> follow up in progress)	2	1	50%
2015/16	EU Procurement Directives	Jaqueline Harris-Baker	Substantial (4 <sup>th</sup> follow up in progress)	2	1	50%
<b>Recommendations and implementation from audits that have had responses</b>				<b>285</b>	<b>245</b>	<b>86%</b>
<b>Priority 1 Recommendations from audits that have had responses</b>				<b>22</b>	<b>20</b>	<b>91%</b>

## Appendix 3 - Follow-up of 2016/17 audits (Incomplete follow ups only)

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
<b>Non School Audits</b>						
2016/17	Adult Care Packages	Guy Van Dichele	Limited (3 <sup>rd</sup> follow up in progress)	7	6	86%
2016/17	Contract Monitoring and Management - Streets Division	Shifa Mustafa	Limited (1 <sup>st</sup> follow up in progress)	6	-	-
2016-17	Contract Formalities and Storage of Contracts	Jaqueline Harris-Baker	Limited (2 <sup>nd</sup> follow up in progress)	4	0	0
2016-17	Contract and Tender Regulation Compliance	Jaqueline Harris-Baker	Limited (2 <sup>nd</sup> follow up in progress)	8	6	75%
2016/17	HMRC Compliance	Jaqueline Harris-Baker	Substantial (4 <sup>th</sup> follow up in progress)	5	3	60%
2016/17	Anti-Social Behaviour	Shifa Mustafa	Substantial (5 <sup>th</sup> follow up in progress)	9	6	67%
2016/17	Licensing Income	Shifa Mustafa	Substantial (5 <sup>th</sup> follow up in progress)	2	1	50%
2016/17	Clinical Governance	Guy Van Dichele	Substantial (4 <sup>th</sup> follow up in progress)	3	1	33%
<b>Recommendations and implementation from audits that have had responses</b>				<b>445</b>	<b>380</b>	<b>85%</b>
<b>Priority 1 Recommendations from audits that have had responses</b>				<b>40</b>	<b>36</b>	<b>90%</b>

## Appendix 4 - Follow-up of 2017-18 audits

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
<b>Non School Audits</b>						
2017/18	Mayors Charity	Jaqueline Harris-Baker	No (No further follow up)	13	11	85%
2017/18	Abandoned Vehicles	Shifa Mustafa	No (3 <sup>rd</sup> follow up in progress)	10	7	70%
2017/18	Budget Management - People	Robert Henderson	Limited (1 <sup>st</sup> follow up in progress)	2	-	-
2017/18	Appointeeships	Hazel Simmons	Limited (No further follow up)	7	6	86%
2017/18	Health Visiting	Guy Van Dichele	Limited (2 <sup>nd</sup> follow up in progress)	2	0	0%
2017/18	Direct Payments	Guy Van Dichele	Limited (No further follow up)	4	4	100%
2017/18	No Recourse to Public Funds	Hazel Simmonds	Limited (1 <sup>st</sup> follow up in progress)	3	-	-
2017/18	Special Sheltered Housing	Jaqueline Harris-Baker	Limited (No further follow up)	10	9	90%
2017/18	Unaccompanied Asylum Seeking Children	Robert Henderson	Limited (2 <sup>nd</sup> follow up in progress)	2	1	50%
2017/18	Croydon Enterprise Loan Fund	Shifa Mustafa	Limited (no further follow up)	5	5	100%
2017/18	Brokerage	Jaqueline Harris-Baker	Limited (3 <sup>rd</sup> follow up in progress)	10	9	90%
2017/18	Deprivation of Liberty Safeguards	Guy Van Dichele	Limited (No further follow up)	4	4	100%
2017/18	Registrars	Hazel Simmons	Limited (No further follow up)	6	5	83%
2017/18	Food Safety	Shifa Mustafa	Limited (No further follow up)	11	9	82%
2017/18	Pay and Display Meter Maintenance and Income Collection	Shifa Mustafa	Limited (4 <sup>th</sup> follow up in progress)	4	3	75%
2017/18	Tree Root Inspections	Shifa Mustafa	Limited (No further follow up)	6	5	83%
2017/18	ICT Capita Contract	Jaqueline Harris-Baker	Limited (No further follow up)	1	1	100%
2017/18	SekChek Active Directory System Security	Jaqueline Harris-Baker	Limited (2 <sup>nd</sup> follow up in progress)	10	4	40%
2017/18	MyAccount and MyApplication	Jaqueline Harris-Baker	Limited (No further follow up)	5	5	100%
2017/18	Parking Enforcement and Income	Shifa Mustafa	Substantial (1 <sup>st</sup> follow up in progress)	5	-	-
2017/18	CALAT Income Collection	Shifa Mustafa	Substantial (No further follow up)	6	6	100%

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2017-18	Open Book Accounting (Axis Europe plc)	Shifa Mustafa	Substantial (No further follow up)	3	3	100%
2017-18	Temporary Accommodation Occupancy Checks	Hazel Simmons	Substantial (No further follow up)	3	3	100%
2017/18	Youth Offending service	Robert Henderson	Substantial (No further follow up)	3	3	100%
2017-18	Development Management	Shifa Mustafa	Substantial (1 <sup>st</sup> follow up in progress)	5	-	-
2017/18	Place Review Panel	Shifa Mustafa	Substantial (No further follow up)	3	3	100%
2017/18	Croydon Equipment Solutions	Jaqueline Harris-Baker	Substantial (No further follow up)	7	7	100%
2017/18	Street Trading Income Collection	Shifa Mustafa	Substantial (No further follow up)	9	8	89%
2017-18	Transport Fleet Management	Jaqueline Harris-Baker	Substantial (1 <sup>st</sup> follow up in progress)	3	-	-
2017-18	Gifts and Hospitality	Jaqueline Harris-Baker	Substantial (1 <sup>st</sup> follow up in progress)	4	-	-
2017/18	Admitted Bodies	Jaqueline Harris-Baker	Substantial (2 <sup>nd</sup> follow up in progress)	4	1	25%
2017/18	Unix (Linux) Operating System Security	Jaqueline Harris-Baker	Substantial (2 <sup>nd</sup> follow up in progress)	3	0	0
2017/18	Design of New Back up and Disaster Recovery Solution	Jaqueline Harris-Baker	Substantial (2 <sup>nd</sup> follow up in progress)	2	1	50%
2017/18	GIS Application	Jaqueline Harris-Baker	Substantial (2 <sup>nd</sup> follow up in progress)	5	2	40%
2017/18	Smitham 2016 School Heating Works	Shifa Mustafa	Substantial (1 <sup>st</sup> follow up in progress)	3	-	-
2017/18	Windows OS Security	Jaqueline Harris-Baker	Full (no further follow up planned)	2	2	100%
<b>Non-School Audits Sub Total: Recommendations and implementation from audits that have had responses</b>				<b>160</b>	<b>127</b>	<b>79%</b>
<b>Non-School Audits Sub Total: Priority 1 Recommendations from audits that have had responses</b>				<b>28</b>	<b>23</b>	<b>82%</b>
<b>School Audits</b>						
2017/18	Beulah Juniors	Robert Henderson	Limited (No further follow up)	13	11	84%
2017/18	Elmwood Infants School	Robert Henderson	Limited (No further follow up)	14	14	100%
2017/18	The Minster Nursery and Infant School	Robert Henderson	Limited (No further follow up)	17	15	89%
2017/18	Norbury Manor	Robert Henderson	Limited (No further follow up)	12	8	67%
2017/18	St Joseph's Federation	Robert Henderson	Limited (3 <sup>rd</sup> follow up in progress)	25	9	36%

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
2017/18	Winterbourne Nursery and Infants	Robert Henderson	Limited (No further follow up)	18	16	89%
2017/18	St Mary's High School	Robert Henderson	Limited (No further follow up)	16	14	87%
2017/18	Crosfield Nursery and Selhurst Early Years	Robert Henderson	Substantial (No further follow up)	2	2	100%
2017/18	Purley Nursery	Robert Henderson	Substantial (No further follow up)	4	4	100%
2017/18	Tunstall Nursery	Robert Henderson	Substantial (No further follow up)	4	4	100%
2017/18	Thornton Heath Early Years Centre	Robert Henderson	Substantial (No further follow up)	7	6	86%
2017/18	All Saints C of E Primary	Robert Henderson	Substantial (No further follow up)	8	7	87%
2017/18	Elmwood Junior	Robert Henderson	Substantial (No further follow up)	3	3	100%
2017/18	Heavers Farm	Robert Henderson	Substantial (No further follow up)	10	10	100%
2017/18	Howard Primary	Robert Henderson	Substantial (No further follow up)	13	13	100%
2017/18	Margaret Roper	Robert Henderson	Substantial (No further follow up)	16	13	81%
2017/18	Purley Oaks Primary	Robert Henderson	Substantial (No further follow up)	7	7	100%
2017/18	Rockmount Primary	Robert Henderson	Substantial (No further follow up)	6	5	83%
2017/18	Selsdon Primary	Robert Henderson	Substantial (No further follow up)	9	9	100%
2017/18	Woodcote Primary	Robert Henderson	Substantial (No further follow up)	7	7	100%
2017/18	Coloma Convent Girls' School	Robert Henderson	Substantial (3rd follow up in progress)	14	11	78%
2017/18	Saffron Valley	Robert Henderson	Substantial (No further follow up)	6	6	100%
2017/18	Priory	Robert Henderson	Substantial (No further follow up)	6	6	100%
2017/18	Beaumont Primary	Robert Henderson	Full (No further follow up)	3	3	100%
2017/18	Archbishop Tenison	Robert Henderson	Full (No further follow up)	1	1	100%
<b>School Audits Sub Total: Recommendations and implementation from audits that have had responses</b>				<b>241</b>	<b>204</b>	<b>85%</b>
<b>School Audits Sub Total: Priority 1 Recommendations from audits that have had responses</b>				<b>5</b>	<b>5</b>	<b>100%</b>
<b>Recommendations and implementation from audits that have had responses</b>				<b>401</b>	<b>331</b>	<b>83%</b>
<b>Priority 1 Recommendations from audits that have had responses</b>				<b>33</b>	<b>28</b>	<b>85%</b>

## Appendix 5 - Follow-up of 2018/19 audits

Financial Year	Audit Followed-up	Executive Director Responsible	Assurance Level & Status	Total Raised	Implemented	
					Total	Percentage
<b>Non School Audits</b>						
2018/19	GDPR in Schools	Robert Henderson	Limited (1 <sup>st</sup> follow up in progress)	8	-	-
2018/19	Landlord Lettings Scheme (formerly Croylease)	Hazel Simmonds	Limited (1 <sup>st</sup> follow up in progress)	8	-	-
2018/19	Libraries Income Collection	Shifa Mustafa	Limited (No further follow up)	5	4	80%
2018/19	Parking CCTV	Shifa Mustafa	Substantial (No further follow up)	1	1	100%
2018/19	Discretionary Housing Payments	Hazel Simmonds	Substantial (No further follow up)	3	3	100%
2018/19	Cashiers	Jaqueline Harris-Baker	Full (No further follow up)	1	1	100%
<b>Non-School Audits Sub Total: Recommendations and implementation from audits that have had responses</b>				<b>10</b>	<b>9</b>	<b>90%</b>
<b>Non-School Audits Sub Total: Priority 1 Recommendations from audits that have had responses</b>				<b>2</b>	<b>2</b>	<b>100%</b>
<b>School Audits</b>						
2018/19	Virgo Fidelis Convent School	Robert Henderson	No (2 <sup>nd</sup> follow up in progress)	27	15	56%
2018/19	Coulsdon C of E Primary School	Robert Henderson	Limited (1 <sup>st</sup> follow up in progress)	8	-	-
2018/19	The Mister Junior School	Robert Henderson	Limited (1 <sup>st</sup> follow up in progress)	11	-	-
2018/19	Regina Coeli Catholic Primary School	Robert Henderson	Limited (1 <sup>st</sup> follow up in progress)	10	-	-
2018/19	Thomas More Catholic School	Robert Henderson	Limited (1 <sup>st</sup> follow up in progress)	18	-	-
2018/19	Park Hill Infant School	Robert Henderson	Substantial (1 <sup>st</sup> follow up in progress)	6	-	-
2018/19	Ridgeway Primary School	Robert Henderson	Substantial (1 <sup>st</sup> follow up in progress)	7	-	-
<b>School Audits Sub Total: Recommendations and implementation from audits that have had responses</b>				<b>27</b>	<b>15</b>	<b>56%</b>
<b>School Audits Sub Total: Priority 1 Recommendations from audits that have had responses</b>				<b>11</b>	<b>7</b>	<b>63%</b>
<b>Recommendations and implementation from audits that have had responses</b>				<b>37</b>	<b>24</b>	<b>65%</b>
<b>Priority 1 Recommendations from audits that have had responses</b>				<b>13</b>	<b>9</b>	<b>69%</b>

## Statement of Responsibility

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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<b>REPORT TO:</b>	<b>GENERAL PURPOSES AND AUDIT COMMITTEE</b> <b>4 April 2019</b>
<b>SUBJECT:</b>	<b>Anti-Fraud Update Report 1 April 18 – 31 January 2019</b>
<b>LEAD OFFICER:</b>	<b>Lisa Taylor, Director of Finance, Investment &amp; Risk</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Resources</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<p>The work of the Audit &amp; Anti-Fraud service helps the Council to improve its value for money by strengthening financial management and further embedding risk management. Improving value for money ensures that the Council delivers effective services contributing to the achievement of the Council’s vision and priorities. The detection of fraud and better anti-fraud awareness contribute to the perception of a law abiding Borough.</p>	
<b>FINANCIAL SUMMARY:</b>	
<p>The budget provision for the Anti-Fraud service for 2018/19 is £263,000 and the service is on target to be delivered within budget.</p>	
<b>FORWARD PLAN KEY DECISION REFERENCE NO: N/A</b>	

<p><b>1. RECOMMENDATIONS</b></p> <p>1.1 The Committee is asked to:</p> <ul style="list-style-type: none"> <li>• Note the Anti-Fraud activity of the Corporate Anti-Fraud Team for the period 1 April 2018 – 31 January 2019</li> </ul>
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**2. EXECUTIVE SUMMARY**

2.1 This report details the performance of the Council’s Corporate Anti-Fraud Team (CAFT) and includes details of the team’s performance together with an update on developments during the period 1 April 2018 – 31 January 2019.

**3. DETAIL**

**Performance 1 April 2018 to 31 January 2019**

3.1 The CAFT comprises 10 staff (8.9 FTEs), including investigators an Intelligence Officer and an Investigation Manager. The CAFT investigates allegations of fraud which affect the Council’s business. In addition the team provides a service to the London Borough of Lambeth, as well as providing Financial Investigation services to the Merton/Kingston/Sutton Trading Standards

partnership. Statistics related to the other councils that CAFT supports are not included in the figures below.

- 3.2 It has been reported previously to this committee that the CAFT was selected as a pilot to take part and help develop the London Counter Fraud Hub (LCFH), alongside Ealing, Camden and Islington councils. The ambition of the LCFH project is to see all of London matching datasets to identify discrepancy. Examples of these could be people registering housing need in more than one borough, claiming small business rate relief on more than one business or claiming single person discount on their council tax when they are not entitled. Following a 2 year period of testing and development the project has been signed off by its Oversight Board and local authorities across London have been encouraged to join up, via subscription and Croydon Council will be subscribing and will continue to support the Hub with a planned go live date of 1<sup>st</sup> April 2019.
- 3.3 There are local performance indicators that relate to the Council's anti-fraud work. The two indicators shown in table 1 below reflect the focus of the team. Table 2 shows a breakdown of these figures.

**Table 1 – Key performance indicators**

	<b>ANNUAL TARGET 17/18</b>	<b>ANNUAL TARGET 18/19</b>	<b>YTD</b>
<b>Successful Outcomes</b>	120	100	137
<b>Identified Overpayments &amp; Savings</b>	£1,250,000	£1,250,000	£983,434

**Table 2 - Breakdown of Outcomes from 1 April 2018 – 31 January 2019 compared to the same period in 2017/18**

<b>2017/18</b>		<b>2018/19</b>	
<b>Area</b>	<b>Value £</b>	<b>Area</b>	<b>Value £</b>
<b>Housing</b>		<b>Housing</b>	
15 Recovered Properties	270,000	7 Recovered properties	126,000
1 Right to Buy stopped	103,900	2 RTB stopped	209,800
33 Removed from housing list	**66,000	4 Removed from housing list	8,000
1 Removed from TA	18,000	1 Succession stopped	18,000
1 Succession stopped	18,000	4 Possession order	36,000
2 Possession order		2 Nomination rights	
12 Legal notices served			
<b>Total</b>	<b>360,911</b>		<b>397,800</b>

<b>Corporate</b> 12 Formal Cautions 18 Dismissal/Resignation & Other Disciplinary Action 18 Council Tax Discounts 21 Blue Badge Abuse 1 Insurance Reviewed 1 Care Package Stopped 7 Direct Payment 6 Recommendations for Improvements 1 Safeguarding Referral 3 Landlord licence 5 Ctax reduction cancelled 1 NRPF deportation 11 Other		<b>Corporate</b> 11 Formal Cautions 6 Dismissal/Resignation & Other Disciplinary Action 9 Council tax reduction 8 Council tax discounts 19 Blue Badge Abuse 1 Direct payment 4 Safeguarding referrals 1 SEN removed 1 Freedom pass 22 Other	
<b>Total</b>	<b>475,900</b>	<b>Total</b>	<b>585,634</b>

\*Includes: Notice Seeking Possession, Notice to Quit and Possession Orders

\*\* Non-cashable saving, as cost to the council only arises when someone moves from the list to a tenancy.

#### 4. FINANCIAL INVESTIGATIONS

4.1 The Council employs two Financial Investigators to undertake cash seizures and other financial investigations, in addition to the work undertaken for Croydon, the Council's Financial Investigators have also undertaken work for Waltham Forest and are currently engaged by Merton/Richmond Regulatory services partnership to provide additional support. Their investigations relate to various departments within the Councils including:

- Environmental enforcement – legacy cases;
- Trading Standards - trademark and rogue trader cases;
- Planning – enforcement case;
- Licensing; and
- Internal cases

- 4.2 At the time of writing the Financial Investigators have 10 cases under investigation involving a total of 19 defendants. These investigations relate not only to Croydon cases, but also to a case for another council.
- 4.3 Financial Investigators are empowered to apply for restraint orders, which is a type of court order agreed by a judge. The order has the effect of freezing property, including money and assets anywhere in the world that may be liable to confiscation following the trial. The aim of the order is to strike a balance between keeping the defendant's assets available to satisfy any confiscation order which may be made in the event of conviction and meeting the defendant's reasonable requirements in the meantime. In these cases if there is a successful prosecution then a portion of these restrained assets will be returned to the Council. The Council's Financial Investigators currently have £110,000 of cash detained as well as 62 restraint orders in place as follows:
- 49 Bank Accounts
  - 13 Properties

#### 4.4 Case Study – Nomination Rights

The council's Anti-Fraud team from time to time get requests from Registered Social Landlords for assistance when they experience fraud from their tenants. Many are small and do not have any anti-fraud resource of their own and the cost of buying in specialist services can be prohibitive and difficult to manage. We have encouraged our local RSL's to speak with us and if we believe we can make a difference we will undertake an investigation for them for no upfront cost, but the guarantee of a nomination right if we succeed in getting the property back.

The nomination right must be for the actual property, or one of a comparable size and location to the one we recover. Last year we undertook two such investigations and gained two nomination rights for our housing allocations team.

In one case, which we took on for Radcliffe Housing Society, they had concerns that their tenant had vacated the property, their family home and left their 25 year old son in occupation to maintain the tenancy. The investigator located the tenants who had relocated to Lincolnshire and proved that the son had remained at the property in the Croydon area. We supported Radcliffe in gaining a court order for possession and family home became available for our housing staff to offer from our waiting list.

In a second case, we were contacted by Orbit Housing Association over their concerns they had a tenant subletting and agreed to undertake an investigation for them. The Investigator found the tenant, a single mother, had relocated to Ongar in Essex to live with her partner. She had sublet her accommodation for profit and maintained her benefits at the Croydon address. Working with investigators from the DWP, who continue to investigate her for suspected benefit fraud, we supported Orbit HA in gaining possession of their property in exchange for the right to house one of our families in that recovered property.

## **5. LOCAL GOVERNMENT TRANSPARENCY CODE**

- 5.1 Members will be aware of the Local Government Transparency Code, which requires Councils to publish data about various areas of their activities. Included in the 2014 code is detail on Counter Fraud work, most of this information has always been reported to committee; however there are some new areas which now need to be made public. These are detailed below for the period from April 2018 to 31 January 2019:

Number of occasions the Council has used powers under the Prevention of Social Housing Fraud Act	2
Total number of employees undertaking investigations and prosecutions relating to fraud	8
Total number of full time equivalent employees undertaking investigations and prosecutions of fraud	6.9
Total number of employees undertaking investigations and prosecutions of fraud who are professionally accredited counter fraud specialists	7
Total number of full time equivalent employees undertaking investigations of and prosecutions who are professionally accredited counter fraud specialists	6.1
Total number of fraud cases investigated*	331

\*The number of investigations that have been closed during the period April '18 to 31 January 19.

## **6. FINANCIAL AND RISK ASSESSMENTS**

- 6.1 The budget provision for the Anti-Fraud service for 2018/19 is £263,000 and the service is on target to be delivered within budget.
- 6.2 There are no further risk assessment issues than those already detailed within the report.

(Approved by: Ian Geary, Head of Finance, Resources & Accountancy)

## **7. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

- 7.1 The Solicitor to the Council advises that there are no additional legal implications arising from this report

(Approved by Sandra Herbert Head of Litigation and Corporate, for and on behalf of Jacqueline Harris-Baker, Director of Law and Monitoring Officer)

## **8. HUMAN RESOURCES IMPACT**

- 8.1 There are no immediate human resource considerations arising from this report for LBC employees or staff.

(Approved by: Gillian Bevan, Head of HR, Resources)

**9. CUSTOMER FOCUS, EQUALITIES, ENVIRONMENTAL, CRIME AND DISORDER REDUCTION & HUMAN RIGHTS IMPACTS**

9.1 There are no further considerations in these areas.

**10. EQUALITIES IMPACT ASSESSMENT**

10.1 An initial screening equalities impact assessment has been completed for the Anti-fraud and Corruption Policy. No further action was found to be necessary.

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**CONTACT OFFICER: David Hogan (Head of Anti-Fraud)**

<b>REPORT TO:</b>	<b>GENERAL PURPOSES AND AUDIT COMMITTEE</b>  04 April 2019
<b>SUBJECT:</b>	<b>Corporate Risk Register</b>
<b>LEAD OFFICER:</b>	<b>Director of Finance, Investment &amp; Risk &amp; S151 Officer</b>
<b>CABINET MEMBER</b>	<b>Councillor Simon Hall, Cabinet Member for Finance and Resources</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b>	
<p>This report presents the corporate risk register as at April 2019 as part of the General Purposes and Audit Committee’s role of overseeing the risk management framework and receiving assurance that significant corporate (Red) risks are identified and mitigated by the organisation. This process will ensure that the risk management function will continue to contribute to the achievement of the Council’s vision, key priorities and objectives.</p> <p>In line with the Council’s commitment to openness and transparency, the corporate risk report will appear in Part A of the agenda unless there is specific justification for any individual entries being considered under Part B (set out under Paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended).</p>	
<b>FINANCIAL SUMMARY:</b> No additional direct financial implications.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

**1.1 RECOMMENDATIONS**

The Committee is asked to:

Note the contents of the corporate risk register as at April 2019

**2. EXECUTIVE SUMMARY**

2.1 The report updates the General Purposes & Audit Committee Members on the corporate risk register (the register) as at April 2019.

**3. DETAIL**  
**Risk Register Report**

3.1 The register presented details all the current corporate risks rated at a total risk score of 20 and above (Red Risks).

3.2 Since the register was last considered by Members, the following risks have been escalated:

- **RCSCFS0094: Britain's EU referendum (23/06/2016) resulted in the decision for the UK to exit membership from the EU. Article 50 (Treaty of Lisbon) was triggered by the UK Government on 29/03/2017 formalising the process for exit negotiations for the UK with the remaining EU member countries.**
- The risk was reviewed at Departmental Leadership Team (DLT) meeting on 11/12/2018 and assessed at a risk score of 20 from a previous risk score of 16. The risk score was escalated as the DLT were concerned following the extensive parliamentary debates and subsequent postponement of the vote concerning ratification of the formal agreement between the European Union and the UK. DLT could not strategically determine the appropriate preparations required for the UK exit from the EU.
- **EYE0009: Increasing population with complex learning needs and parental expectations leads to rising demand and financial pressure on SEN fixed budgets including pressure on High Needs DSG budget. There is currently a £4.5m budget pressure and a cumulative £13m deficit.**  
The risk was reviewed at Departmental Leadership Team (DLT) meeting on 06/12/2018 and assessed at a risk score of 20 from a previous risk score of 16. The risk score was escalated as the DLT felt that despite the controls they had initiated to mitigate, the numbers of referrals was consistently increasing and placing significant additional financial pressure on the Council.
- **EYE0003: We have a number of schools in a deficit position with loans from LBC. The risk is that of default or increase in arrears. The total deficit is over £3 million.**  
The risk was reviewed at Departmental Management Team (DMT) meeting on 21/01/2019 and assessed at a risk score of 20 from a previous risk score of 16. The risk score was escalated as the DMT felt that the likelihood of the number of schools in deficit would increase from 'highly likely' to 'almost certain' with the value of the deficit achieving as a minimum £3million.

3.3 No risk(s) have been de-escalated since the report was last considered by Members

3.4 In line with the Council's commitment to openness and transparency, the register will appear with the corporate risk report in Part A of the agenda unless, in accordance with the Access to Information Procedure Rules in the Council's Constitution there is specific justification for any individual entries being considered under Part B (set out under Paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended).

- 3.5 It should be noted that some of the grounds for exemption from public access are absolute. However, for others such as that in para.3, 'Information relating to the financial or business affairs of any particular person (including the authority holding that information)', deciding in which part of the agenda they will appear, is subject to the further test of whether, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

#### **4. FINANCIAL CONSIDERATIONS**

- 4.1 There are no additional financial considerations arising from this report.

(Approved by Lisa Taylor – Director of Finance, Investment & Risk and S151 Officer)

#### **5. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

- 5.1 The Council Solicitor advises that there are no additional legal considerations arising from this report.

(Approved by: Sean Murphy, Interim Director of Law & Monitoring Officer)

#### **6. HUMAN RESOURCES IMPACT**

- 6.1 There are no additional Human Resources implications arising from this report.

(Approved by: Sue Moorman, Director of HR)

#### **7. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS**

- 7.1 None

#### **8. RISK ASSESSMENT**

- 8.1 No further risk issues other than those detailed in the report.

- 8.2 The corporate Risk Management Team (RMT) incorporates a '**horizon scan**' strategy in respect of the risk management activities undertaken as part of the Council's Risk Management Framework.

- 8.3 The horizon scan strategy is implemented through the distillation of cross – organisational & external professional networks maintained by the RMT. This strategy incorporates a multi-faceted approach including:

- Intelligence sharing (especially in respect of significant events / incidents) with other local authorities such as the Local Government Association;
- Collaborative working particularly the London Boroughs network, London Councils and the Greater London Authority;

- Research conducted via professional and generic media mechanisms for  
example The Association of Local Authority Risk Mangers, CIPFA;
- Regular attendance at DMT's / DLT's on a quarterly basis;
- Participation in the relevant 'working group' activities / projects for  
example  
major systems implementation such as Oracle Cloud, or  
policy/legislative change implementation such as IR35 compliance;  
and
- The ability to 'add value' and strategic direction and guidance is an  
integral  
aspect of the risk management consultancy available to senior officers.

## **9. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 9.1 Information contained in the Council's Risk register or held in relation to the Council's risk management procedures may be accessible under the Freedom of Information Act subject to the application of any relevant exemptions, such as commercial sensitivity and whether disclosure was in the 'public interest'.

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<b>CONTACT OFFICER:</b>	Malcolm Davies, Head of Risk & Corporate Programme Office Ext 50005
<b>BACKGROUND DOCUMENTS:</b>	Appendix 1 Corporate Risk Register

## Appendix 1: Corporate Risk Register

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
EHCS0001  Pendry, Nick	<p>The number of unaccompanied asylum seeking children looked after by Croydon remains significantly higher than the national average. LB Croydon plays a key role in supporting the National Transfer Scheme, a voluntary arrangement between local authorities to disperse and settle children and young people across the UK. This scheme has not had the anticipated success. The Pan London Protocol is in operation. London authorities have co-operated over many years to support each other (although primarily Croydon) by voluntarily taking new presentations of 16 and 17 year old UASCs on a rota basis with an agreed threshold of 0.07%. Those authorities that have been above the 0.07% threshold have come off the rota. They do come back on when young people become 18 and they fall back beneath the threshold. However, the numbers have risen in the past year and the capacity has reduced across London. One authority has recently removed themselves from the rota.</p> <p>On the basis of the average number moved through the rota last year and the new capacity, we calculate it is very possible that the Rota will be full within the next few weeks. Croydon would then be responsible for all new presentations to Lunar House as a locally based service.</p> <ul style="list-style-type: none"> <li>- This would mean an average additional intake of 38 young people per month (based on Jan-Dec 2018 figures).</li> <li>- This is on top of the under 16s already accommodated by Croydon who are made subject to the NTS.</li> <li>- The number of UASC in Croydon's care is likely to rise significantly with a direct impact on Croydon's services generally</li> </ul>	<ul style="list-style-type: none"> <li>- Significant service and staff resources pressures, with pressures on placement supply in-house and in the independent sector, and pressures on school places and LAC health services.</li> <li>- Impact on Council revenue budgets as a result of insufficient funding, especially as the Home Office have failed to increase the funding rates for 19/20.</li> </ul>	Henderson, Robert  Children Families & Education Services	<p>Continued work with the Association of London Directors of Children's Services and the Department for Education and Home Office to collectively support the National Transfer Scheme and the work of the Pan London Protocol.</p> <p>Continued work with the Home Office to ensure that only appropriate young people are placed.</p> <p>Emphasis on wider negotiation of fair funding arrangements for Croydon.</p> <p>Establishment of a new Age Assessment Team, supported by the Controlling Migration Fund to fast track all age disputed cases.</p> <p>Financial implication / impact for 2019/20 financial year on going scoping of financial risk / impact for each quarter.</p> <p>Implementation of the National Transfer Scheme.</p> <p>Increased use of the rota to place young people in other boroughs.</p>	5	5	25	<p>Further engagement with Home office and Association of Directors of Children Social Services.</p> <p>Ongoing work to ensure compliance and ensure opportunities are utilised through a formal system for dispersing unaccompanied child migrants as introduced by central government.</p>	5	4	20

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
	and Children's services in particular and further budget pressures resulting. - The relevant parts of the Immigration Act have not been enacted by Central Government.			Placement sufficiency.  The Council has held meetings with the Immigration Minister and others in Home Office. Ongoing correspondence, conversations and clarifications with Home Office taking place, but response is very slow.							

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
ASC0001  McPartland, Annette	<p>Social Care market supply disruption leading to market failure and inability to fulfil statutory requirements.</p> <p>Situation nationally has deteriorated so likelihood is very high. Market failure has become more common, increased by 82% nationally.</p> <p>Risk is jointly owned with Commissioning &amp; Procurement (Jenny Beasley)</p>	<ul style="list-style-type: none"> <li>- Reduction in choice.</li> <li>- Failure to meet service user needs.</li> <li>- Delayed discharge from hospital.</li> <li>- Increase budget pressure.</li> <li>- Reduced quality of provision.</li> <li>- Increase in safeguarding concerns.</li> <li>- Increase number of providers within the provider concerns process.</li> <li>- Increases in delays or overpayments to providers.</li> <li>- Increase pressure on all internal services.</li> </ul>	<p>Van Dichele, Guy</p> <p>Health, Wellbeing &amp; Adult Services</p>	<ul style="list-style-type: none"> <li>a. 2017/18 internal audit findings completed &amp; implemented.</li> <li>b. Brokerage and Placements Quality Assurance.</li> <li>c. Inflation strategy in place to manage fees paid.</li> <li>d. Integrated Framework Agreement extension.</li> <li>e. Pan London provider concern's process managed by safeguarding team.</li> <li>f. Market management by Contract monitoring team.</li> <li>g. ADASS Pan London minimum standards programme adopted.</li> <li>h. One Croydon Alliance Commissioning strategy ongoing implementation.</li> <li>i. Right Cost of Care exercise by KPMG.</li> <li>j. Croydon Dynamic Purchasing and e-market system commissioned September 2018.</li> </ul>	5	4	20	<ul style="list-style-type: none"> <li>a. A joint micro commissioning and market management process for all Alliance partners.</li> <li>b. Refreshed Market position statement.</li> <li>c. Restructured contract &amp; market management function with increased number of monitors.</li> <li>d. Bring Services 'in-house' where appropriate. (enhance on case by case basis / review and ensure compatibility)</li> <li>e. Creation of more 'Supported Living' capacity.</li> <li>f. PFI Homes Project to be reviewed.</li> <li>g. Reablement in South of borough - Review ability for provision within area.</li> <li>h. Special sheltered housing review / investigation.</li> </ul>	5	3	15

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
EHSC0007 Pendry, Nick	<p>Dependency in Children's services on interim resources and challenges of recruiting (particularly in Care Planning &amp; Assessment Team) coupled with significant capacity and resourcing pressures and impact of service reorganisations results in lack of stable, high performing workforce.</p> <p>42% vacancy level -- (28/02/2019 – this includes an adjustment to the establishment which is ensuring lower caseloads).</p> <p>**It must be noted that the vacancy rate is increasing as the size of the teams have increased since Ofsted inspection in order to reduce caseloads and other pressures on Social Work staff.** The reduction of caseloads and the injection of branding 'Croydon as a social care employer'.</p> <p>This is linked to risk ref: EHSC0012</p>	<p>- Managers and staff working excessive hours / holding excessive caseloads..</p> <p>- Loss of key members of staff and inability to recruit and retain good quality candidates for vacant posts and reduce reliance on agency personnel.</p> <p>- Poor decision making, performance and inability to deliver service transformation.</p>	<p>Henderson, Robert</p> <p>Children Families &amp; Education Services</p>	<p>Exit interview process has been reviewed and is now structured to include Director involvement and the ability to identify crucial management information / data to mitigate high attrition rates.</p> <p>Further progress has been made in the conversion of locums to permanent staff - as at 12 March 2019, 18 locum staff had converted to permanently employed status.</p> <p>Recruiting to vacancies: a detailed monthly analysis is identified by a workforce report. Recruitment campaigns are targeted to teams which identify unfilled vacancies and agency workers. Roles are advertised via Community Care which has a readership of social care professionals. In addition Croydon is holding a series of 'Excellence in Practice' recruitment seminars. – latest event held 29/03/2019.</p>	5	4	20	<p>Implement recruitment and retention policy: implementation of the recruitment &amp; retention policy is underway which includes learning and development career pathways, retention payment for Social Workers in hard to fill teams with payment in 2 instalments. There is a strategic approach to recruitment &amp; retention which including benchmarking against other Local authorities, analysing exit interview data as well as monitoring sickness absence and 1:1 supervisions.</p> <p>New co-hort of newly qualified Social Workers to start in May 2019.</p> <p>Reviewing benchmarking and 'welcome payment' for Care Planning &amp; Assessment Teams.</p> <p>Work with HR to promote more strategic approach to recruitment Croydon experience significant difficulties recruiting and competing in London</p>	5	3	15

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
EHSC0010 Pendry, Nick	<p>Risk of exploitation of young people in the Borough particularly in relation to peer on peer and gang activities and children missing from home and care.</p> <p>(Risk reviewed, amended and accepted DMT 14/03/2019).</p> <p><b>**It is recognised that the enforcement notice (and subsequent implications) issued by Information Commissioners Office towards the Metropolitan Police Service in respect of data sharing / gangs matrix is significant in its implications on the Services ability to deliver protection strategies etc.**</b></p>	<p>- Children feeling and being unsafe/becoming victims or perpetrators of crime</p> <p>- Significant risk of harm to young people in the Borough through exploitation (sexual and criminal), being missing and/or trafficked or caught up in crime</p> <p>- Risk of harm to Croydon children placed away from Croydon without prevention, disruption and protection activity.</p>	<p>Henderson, Robert</p> <p>Children Families &amp; Education Services</p>	<p>a. Choose Life campaign.</p> <p>b. Partnership working with the police and other agencies</p> <p>c. Strategy meetings for children who are missing weekly high risk missing meetings, strategic monthly missing panel. Child Exploitation risk assessment and risk management meetings introduced with MACE (multi agency exploitation panel).</p> <p>d. Focused work with our schools around gangs and County Lines.</p> <p>e. Investment in a data analyst to understand the underlying issues and themes emerging so targeted preventative working can be developed. Analyst liaises with police and gangs analysts.</p> <p>f. Investment made in expanding the team to complete return home interviews.</p> <p>g. Much improved single performance and data report available now.</p>	5	4	20	<p>a. Greater awareness and robust actions by all partners.</p> <p>b. Panel realignment in consultation so children are only discussed in one forum. This will report into new Vulnerable Adolescent workstream.</p> <p>c. Creation of Violence Reduction Unit / Joint accountability with Community Safety.</p> <p>c. Robust and reliable data as well as children's feedback to be analysed on a regular basis (to include: increase in Return Home Interviews, less repeat missing children, realistic National Referral Mechanism (NRM) referral rate, realistic number of children tracked at risk of criminal and sexual exploitation and risks reducing).</p> <p>d. Work with other local authorities to reduce placements of vulnerable children in Croydon.</p> <p>e. Working with the Head of Service responsible for Community Safety to review overall strategy</p>	5	3	15

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
				h. Recently established an adolescent service within Children's Social Care incorporating the Working Gangs Team, Youth Offending Team and the Child Exploitation Team, along with two statutory social care teams for adolescents.				f. Implementation of the 'Glasgow Public Health' approach to managing violence.  g. The mayor's violence reduction unit expected to deliver further targeted services in this area.			

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
EHSC0012 Pendry, Nick	The pace of change to achieve the improvement plan outcomes and the journey to a rating of 'Good' is too slow or not achieved, following the OFSTED inspection of 'Services for children in need of help and protection and children looked after and care leavers' which judged the Council's Children's Services as 'inadequate'.	<ul style="list-style-type: none"> <li>- Reputational damage, which has a severe impact on the Council's ability to recruit and retain high quality, skilled staff</li> <li>- Children and young people at risk of significant and serious harm, because children in need of help and protection and children looked after by the Local Authority do not have sufficiently robust care plans and services to meet their needs and keep them safe.</li> <li>- Financial cost of implementing wide ranging changes</li> <li>- Increased referrals to children's social care from across partners, leading to unacceptably high workloads, poor service and associated financial pressures.</li> <li>- Media scrutiny.</li> <li>- Political scrutiny and activity.</li> </ul>	Henderson, Robert  Children Families & Education Services	<p>Additional investment of £12m in the base budget will resource business support, learning and development and performance management, which create the conditions for good social work to flourish.</p> <p>Improved leadership and management is being supported and challenged through systemic training for managers at all levels to ensure all have the skills, knowledge and ability to support and develop our staff group, commencing April 2019.</p> <p>In February 2019 inspectors reported that services for children in Croydon continue to improve and many now receive a service that meets their needs. However variability remains, and some children and families continue to receive a very poor service. The pace of improvement needs to accelerate now to ensure every child and family gets a good service.</p>	5	4	20	<p>Locality based working will bring services together around families and communities to make sure families get the right services at the right time. Strengthened relationships will be built across children's services and schools, early years and voluntary sector providers to keep the journey of the child at the centre. Early help will continue to provide robust, effective support for families, expanding the offer so more cases step down from statutory services.</p> <p>The service has been assessed as ready for Frontline social workers to be placed in Croydon from September, reducing the numbers of locum staff and bringing high quality new staff to the borough. A First line cohort of team managers will be recruited to join at the same time.</p>	5	3	15

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
				<p>Substantial service improvement to better meet needs is underway including an edge of care service, the realignment of care planning to create a specialist court work teams, a brief intervention approach to working with children in need and putting in place an early help offer for older children.</p> <p>The permanent Executive Director Children, Families and Education and Director of Early Help and Children's Social Care have quickly analysed and evaluated strengths and weaknesses, and translated these into a coherent set of sequenced priorities for action.</p>							

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
EYE0003  Davies, Shelley	As at the end of Qtr 3 (2018/19), there are 13 of our 52 maintained schools in deficit. Two of the schools are also in a loan arrangement with the LA. . The risk is that of default or increase in arrears. The total deficit amounts to £4.5m.	- Financial loss to LBC.	Henderson, Robert  Children Families & Education Services	<p>Deficit schools are required to report monthly.</p> <p>Schools are met with by senior finance and education officers to discuss their deficit and their action plan for setting a balanced budget in the future.</p> <p>Schools are requested to set a licence deficit plan – this includes a 3 year budget plan as to how the school will return to a balanced position.</p> <p>Termly meetings with 3 schools with highest levels of debt.</p> <p>We have input into the school's 3 year business plan to shape repayment terms and included a formal letter of agreement. • Termly finance meetings for all maintained schools sharing best practice etc.</p>	4	5	20	More enhanced benchmarking using tools currently under development with the DfE.	4	5	20

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
EYE0009  Davies, Shelley	Increasing population with complex learning needs and parental expectations leads to rising demand and financial pressure on SEN fixed budgets including pressure on High Needs DSG budget. There is currently a £4.5m budget pressure and a cumulative £13m deficit.	<ul style="list-style-type: none"> <li>- Children and families do not receive the advice and support they would expect.</li> <li>- Increased costs due to tribunals and complaints leading to reduced reputation.</li> <li>- Inability to achieve outcomes for children and families in Croydon.</li> </ul>	Henderson, Robert  Children Families & Education Services	<p>Further senior management review of existing plans.</p> <p>High Needs Funding Review planned.</p> <p>Implement strategies for managing demand for more effective mainstream school placements.</p> <p>Implementation of SL DPS to reduce placement costs.</p> <p>Improved forecasting and reporting of demand led spend to manage overall budget position.</p> <p>Improved projections for school places.</p> <p>Modelling of Locality Based Working &amp; Staged Approach supporting mainstream schools meeting SEN needs.</p> <p>More support in mainstream schools planned.</p> <p>New SEN strategy 2019 / 22 present to cabinet March 2019 following consultation. Plans to improve impact of service and measure to mitigate against cost.</p>	5	4	20	<p>0-25 SEND Strategy Implementation Plan to deliver change across the system – in five areas below. The SEND Strategy implementation plan Governance is through SEND Working Group; which reports into Children &amp; Families Partnership Board.</p> <p>Early Identification and Intervention –improved HV assessment, identify needs, work with families early. Support for EY education providers, personalised inclusion funding until the end of EY Foundation Stage.</p> <p>Graduated response – right support, right time. Meeting needs locally in local schools at SEN Support level; reduced reliance on alternative education.</p> <p>Joint Working – children's needs are met locally in Croydon (cost avoidance in inn sector), through co-ordinated and coherent pathways which are achieved through collaborative work with parents and YP; across education, health and care.</p>	5	2	10

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
				Provision of more Post 16 specialist placements in borough by Sept 2019 with a further 244 school placements to come on stream by Sept 2020.				<p>Post 16 pathway development so that there are effective local education, care and health pathways to adulthood, and EHC Plans are ceased in timely way (currently 40% HNB spend is post 16).</p> <p>South London Partnership SEN Commissioning Programme for commissioning residential and day placements for children and young people with Special Education Needs.</p> <p>Workforce development – practitioners have the skills and knowledge to meet needs locally. Parents are confident.</p>			

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
FIR0018  Taylor, Lisa	<p>The 2019/20 budget is not managed within allocated resources resulting in an overspend and therefore the need to implement additional cuts to services. Funding reductions are imposed whilst the Council experiences a continuous rising demand for service provision and growth in population. The continuing improvement of Children's Services following the OFSTED inspection (June / July 2017) has required greater investment in this service with over £10m having been invested in Children's Services during 2018/19. A further £12m investment has been agreed in the 2019/20 budget.</p> <p>Quarter 3 (2018/19) year-end forecast overspend is £5.466m. This includes £2.66m of costs relating to UASC, which the Home Office are still not engaging with Croydon to resolve. Costs could increase further if demand rises above expected volumes. Overspends will need to be funded from reserves at year end.</p>	<p>- Insufficient resources may lead to inability to meet needs and political aspirations. Potential inability to meet statutory responsibilities in times of increasing demand through changing demographics, for example mental health services, older people's services, children's services and housing.</p> <p>- Damage to reputation and service risk.</p> <p>- Reduction in resources.</p> <p>- Erosion of reserves.</p> <p>- Risk of failure to balance Budget and failure to maintain capital investment strategy in infrastructure (Strategic objective alignment: Enabling).</p>	<p>Harris-Baker, Jacqueline</p> <p>Resources Department / Corporate</p>	<p>a. Corporate Plan aligned to MTFS to ensure priorities align with resources</p> <p>b. MTFS 2018/22 presented to cabinet (September 2018), setting out future budget requirements.</p> <p>c. Quarterly financial monitoring with additional controls in respect of Adult and Children Social care, where the high risk areas are monitored monthly.</p> <p>d. Regular monitoring of all reserves including Transformation Projects for both service delivery and financial savings.</p> <p>e. Immediate response to national consultations / questionnaires in conjunction with continued lobbying of central government.</p> <p>f. Implementation of the Gateway North Project</p> <p>g. Continued implementation of the Children's Improvement Plan.</p>	5	4	20	<p>a. Continue to implement all Savings &amp; Transformation projects to ensure delivery.</p> <p>b. Close collaborative working with CLT / ELT and Cabinet on savings options for both the current year and future years.</p> <p>c. Focus on preventative measures and early intervention particularly with identified top high cost families, including the Gateway North project model benefits (continuous review).</p> <p>d. Children's Social Care - continued implementation of The Improvement Plan.</p> <p>e. Adult Social Care - review of service delivery and review of all contracts. This includes charging for services.</p> <p>f. Regular review and refresh of MTFS including review of all fees and charges.</p> <p>g. Continued active engagement in fair funding review.</p> <p>h. Continued Home Office lobbying for fair UASC funding.</p>	5	3	15

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
				<p>h. SEN Transport - Continued development of the service operating model to drive efficiencies. This includes the continued use of independent travel.</p> <p>i. Development of a 5 year financial model to continue to manage SEN Transport costs.</p> <p>j. Continued delivery of Gateway &amp; Family Link Service.</p>				i. Investigation / development of the Gateway North Project & Family Link Service.			

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
RCS0018 Negrini, Jo	<p>The Council's ability to deliver services (including all statutory requirements) are adversely / critically affected following the departure from the European Union by the United Kingdom.</p> <p>**The United Kingdom's EU referendum (23/06/2016) resulted in the decision for the UK to exit membership from the EU. Article 50 (Treaty of Lisbon) was triggered by the UK Government on 29/03/2017 formalising the process for exit negotiations for the UK with the remaining EU member countries, Parliament has passed legislation confirming EU Exit day as 29 March 2019. On 20/03/2019 the Prime Minister has requested an extension to Article 50 with a new departure date of 30/06/2019 - no approval received as yet from the 27 member states**.</p> <p>This risk is closely monitored in terms of impact however the outcome of the parliamentary process / details of the UK exit conditions cannot be determined at an organisational level. The Council will continue to react to the issues arising as a result of the status of the ongoing negotiations.</p>	<p>- Uncertainties about the residency rights of current EU citizens in Croydon could cause community tensions and heightened tensions.</p> <p>- Wider uncertainties about the UK's economy and trade arrangements could potentially impact development plans and inward investment that are vital for the borough's regeneration.</p> <p>- The Council has received funding for a number of initiatives from the EU with some of these part way through delivery. There is uncertainty about future funding and the availability of funds projects.</p> <p>- The UK Economic performance will impact local authority budgets and grants. Currently there are unknowns about whether further grant cuts will be imposed and how Croydon's budget may be affected.</p> <p>- Croydon's business rates income could be impacted by any loss of confidence in investment in the UK economy.</p> <p>- A 'No-deal' Brexit has a high likelihood of causing disruption to supply chain with delays and additional processes at ports in the UK and EU. This may cause shortages in supplies, including critical areas such as medicines, food and fuel.</p>	Negrini, Jo  Corporate Risk	<p>A report has been provided to Cabinet outlining the various implications and actions arising from a No Deal Brexit.</p> <p>An SRO has been appointed and has established a multi-service Brexit Working Group to coordinate the Council's response. This includes the sharing of information / intel, identification of risks and impact, scenario planning, communications and a corporate action plan. This work is being coordinated with partners.</p> <p>Cabinet have endorsed a statement to say that Croydon values and welcomes EU citizens and is open for business and plans are in place to safeguard our growth.</p> <p>Croydon Council Brexit group established and active and engaging with London Councils</p> <p>Croydon is working together with its partners to be vigilant to identify any hate crime and take vigorous action against perpetrators.</p>	5	4	20	<p>In respect of EU regulations, the Council will monitor legislative and regulatory changes and respond in the appropriate time and keep abreast of responses by providers in EU markets.</p> <p>London Councils has called for the Mayor and London boroughs to work closely together to sustain growth and the success of London post referendum and explore the opportunities presented by devolution of powers and finance.</p> <p>The Council will continue to monitor pension fund investments, consider options and viability as volatility levels and markets change</p> <p>The Council will continue working with developers and investors to encourage and enable suitable projects within the borough</p>	5	3	15

Risk Ref	Risk Scenario		Exec Director	Existing Controls	Current			Future Controls	Future Risk Rating		
	Risk	Impact			Impact	L'hood	Total		Impact	L'hood	Total
				<p>In respect of the Council's Pension Fund, Croydon is assessing the risk of the investment environment having changed, checking whether the investment vehicles will work after the UK leaves the EU, assessing how the Council can access more attractive regions and investment opportunities, monitoring changes for the investment regulations for the LGPS and reviewing the Treasury Management policy and the level of risk the Council is prepared to accept in view of the UK's credit rating.</p> <p>The Council is working together with its partners to be vigilant to identify any hate crime and take vigorous action against perpetrators.</p> <p>We are coordinating our lobbying and issues monitoring through London Council's.</p>							

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# **General Purposes & Audit Committee**

## **Draft Annual Report 2018/19**

## Foreword

I am pleased to bring this report to Full Council covering the year 2018/19. Having joined the General Purposes and Audit Committee in May 2018 I have been impressed by the work of the team and the Committee in getting up to speed quickly to ensure a robust audit process was in place for the 2017/18 financial year close.

This year as a Committee we have focused on a number of key areas which present long term risk to the Council namely the matters of school budgets; social care and unaccompanied asylum seeker children.

These areas are placing increased stress on the Council budget through a mixture of Government underfunding of Croydon's unique position as a gateway borough and the UK wide challenges surrounding school and social care funding.

As a Committee we have worked well across the political divide to embrace these issues and it is reassuring that we have been able to get to the detail of these very important matters.

With the appointment of Nosheen Hasan as our second co-opted member alongside Muffaddal Kapasi we have been able to expand the expertise of the Committee, filling a long-term vacant post, and I would like to thank both for their important contributions across the year.

Over the year the anti-fraud team has continued to excel and it is positive to see this function performing so consistently.

In terms of fraud prevention, a lot is changing across London with the development of the Counter Fraud Hub, of which Croydon is a pilot member. I hope to see the results of this important initiative deliver benefits to Croydon over the coming years.

I wish to conclude by thanking the Committee, my Vice-Chair Cllr Joy Prince, and officers for their work over the year in particular Richard Simpson who has left the Council mid-year and Lisa Taylor who has stepped up to fill his shoes.



**Cllr Stephen Mann**  
**General Purposes & Audit Committee Chair**

## Introduction

1. The General Purposes & Audit Committee (the Committee) has a wide ranging brief that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control including audit, anti-fraud and the financial reporting frameworks. It also deals with a limited number of matters not reserved to the Council or delegated to another Committee and related to a non-executive function. The Committee was formed in 2014, replacing the former Corporate Services Committee and the Audit Advisory Committee.
2. This report details the work of the Committee during 2018/19, outlining the progress in:
  - Internal Control;
  - Risk management;
  - Internal Audit;
  - Anti-fraud;
  - External Audit;
  - Financial reporting
3. Table 1 details the Committee Members during 2018/19. Members have a wide range of skills and bring both technical and professional experience to the role. All the Members have some experience in relation to the governance processes they challenge. This provides a solid foundation from which to develop the Committee's role.

**Table 1: Members of the General Purposes & Audit Committee 2018/19**

<b>Member</b>	<b>Role</b>
Councillor Stephen Mann	Chair
Councillor Joy Prince	Vice-Chair
Councillor Clive Fraser	Member
Councillor Jerry Fitzpatrick	Member
Councillor Patsy Cummings	Member
Councillor Mary Croos	Member
Councillor Jan Buttinger	Member
Councillor Oni Oviri	Member
Councillor Ian Parker	Member
Councillor Steve Hollands	Member
Mr Muffaddal Kapasi	Non-Elected, non-voting Independent Member

Mrs Nosheen Hassan	Non-Elected, non-voting Independent Member (Part Year)
<b>Reserve Members:</b> Councillors: Maddie Henson, Toni Letts, Pat Clouder, Jamie Audsley, David Wood, Sherwan Chowdhury, Jason Cummings, Badsha Quadir, Stuart Millson and Simon Brew	

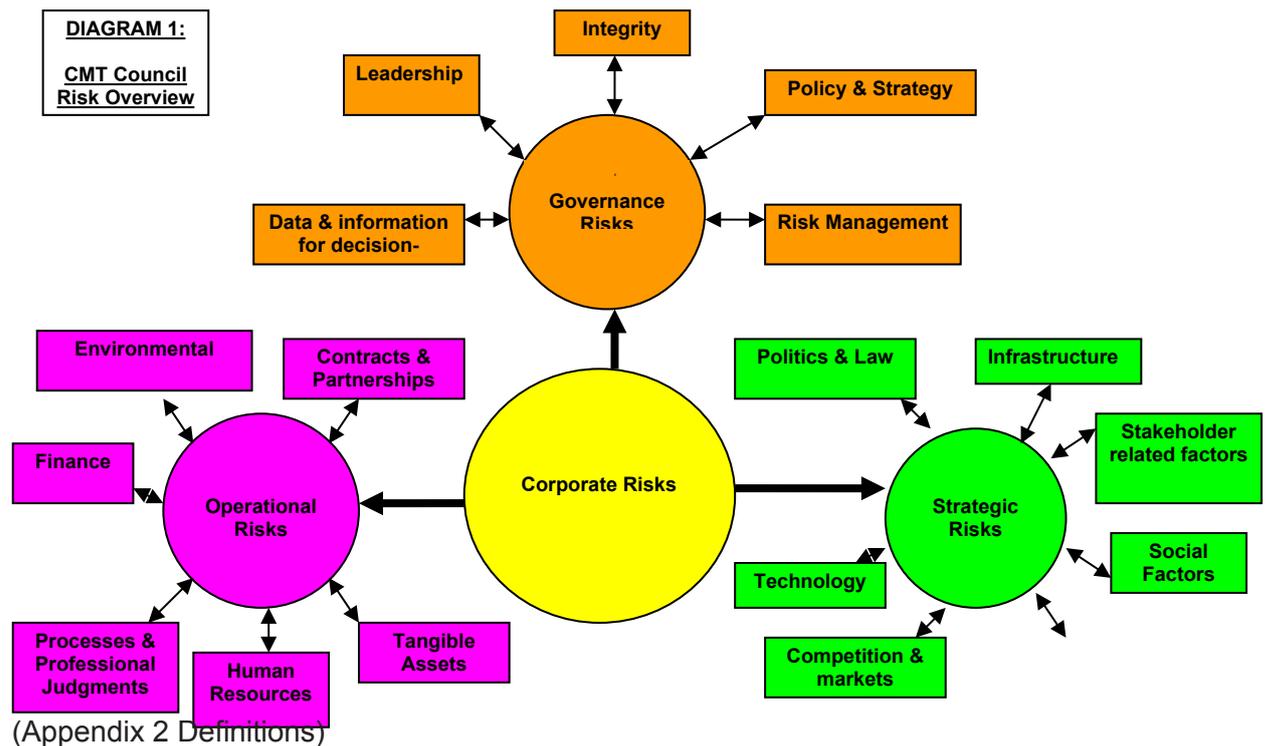
4. Independent non-voting Members play an important part in the deliberations of the committee and bring useful additional skills and external perspective. The committee would like to express its thanks to those people who have given of their time during the year to work alongside the elected Members.
5. This report details the work of the Committee in 2018/19.

### **Internal Control**

6. A pivotal role of the Committee is its work in developing the Council's internal control and assurance processes culminating in the Annual Governance Statement (AGS). The Accounts and Audit Regulations 2015 require the Council to review the effectiveness of its systems of internal control and publish the AGS each year alongside the financial statements. The information for the AGS is generated through the Council's Assurance framework (Appendix 1) including:
  - Risk management;
  - Internal Audit;
  - Anti-Fraud programme;
  - External Audit.
7. The Committee leads this review by receiving, at every meeting reports on these service areas.
8. To support its understanding of issues relating to internal control and to emphasise its commitment to a robust internal control environment, the committee invites officers to attend its meetings to give briefings in relation to strategic risks and what is being done to mitigate them. It also invites officers to give explanations where significant issues are identified through internal audits.

### **Risk Management**

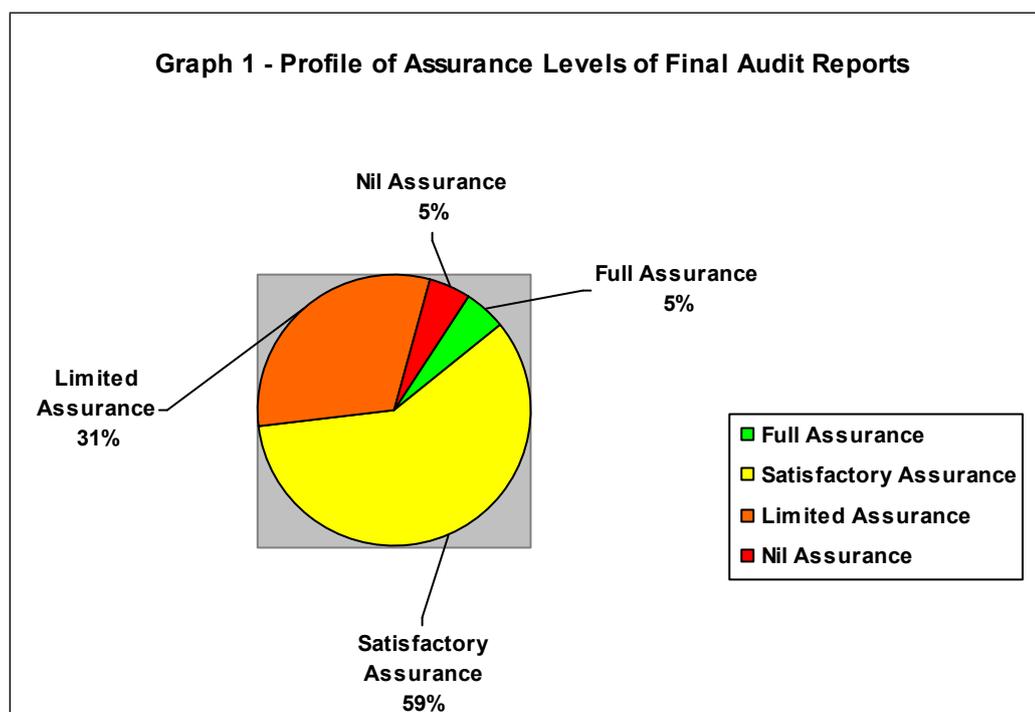
9. The Council has an excellently performing, award winning risk management framework. This includes a quarterly reporting process for the Department Leadership Teams (DLT) and to the Council's Governance Board, where the Council's key strategic risks are identified and reviewed ensuring integration between the risk management framework and the strategic, financial and performance management frameworks using the reporting framework detailed in Diagram 1.



10. The reporting process to Department Leadership Teams and to the Council's Governance Board is complemented by the Committee reviewing the Council's key risks. At all Committee meetings Members review the current risks being reported to DLTs. There is in-depth review and challenge in relation to the risks presented and crucially the risk management framework underpinning it.
11. The Committee has monitored the continued development of the council-wide, risk register system including a training programme for all risk owners. The content of the registers maintained on the system is refreshed quarterly by a facilitated risk review and challenge session with each Director and their management team.
12. The Council's approach to risk management is also used to manage the challenges associated with the delivery of significant projects.
13. Internal Audit has view-only access to the risk registers to assist its risk-based audit approach, ensuring it is dealing with the most up to date information. Following audit reviews, the resultant report is mapped against the identified risk on the risk register. This gives a complete picture of how the Council is managing the challenges it faces in delivering its objectives.

## Internal Audit

14. The work of the Council's internal audit service is delivered in partnership with Mazars Public Sector Internal Audit Limited. The current contract began on 1<sup>st</sup> April 2018 and will end on 31<sup>st</sup> March 2024 with the possibility of extending for a further two years.
15. The alignment of the audit programme to the Council risk management framework has focused internal audit on the key challenges the Council faces and therefore, the issues that if not managed, could lead to strategic objectives not being achieved. The enhanced focus on these key challenges has continued to improve the value added by the service and is demonstrated in the increased strategic engagement of Directors and departmental leadership teams in the audit programme.
16. Graph 1 shows that at the time of writing 64% of finalised audits have full or satisfactory assurance compared to 67% for the same period last year. Council wide, the performance in audits has declined against the previous year.



17. To help improve internal audit results and internal control more generally the Council's Governance Team continues to organise and lead, with support from other colleagues, a series of workshops under the banner of 'Doing the Right Thing' to raise awareness of key corporate policies and procedures. Over the last few years over 1000 managers and staff have attended these workshops. Immediate feedback shows that these have been very well received. Work has been undertaken to provide training and awareness via the Council's new e-learning platform in the hope that this will enable more staff to benefit from this more flexible delivery.

18. A key measure of the Internal Audit service's effectiveness is the action taken in implementing audit recommendations. The target for implementation of recommendations is 80% for priority 2 and 3 recommendations and 90% for priority 1 recommendations. The stringent approach to the follow up process has continued with tight timescales for follow up work linked to the level of assurance.
19. Table 2 details the performance in this area in all follow up work completed since 1<sup>st</sup> April 2014.

**Table 2: Implementation of Previous Years Audit Recommendations to date**

	Target	2014/15	2015/16	2016/17	2017/18
Implementation of priority one recommendations at follow-up	90%	100%	91%	88%	82%
Implementation of all recommendations at follow-up	80%	94%	86%	85%	78%

20. The main performance indicators for the Internal Audit team are detailed in Table 3.

**Table 3: Internal Audit Performance 2018/19 year**

Performance Objective	Annual Target	Actual performance [to January 19]	RAG
% of planned 2018/19 audit days delivered	100%	<b>78%</b>	<b>G</b>
% of 2018/19 planned draft reports issued	100%	<b>47%</b>	<b>A</b>
% of draft reports issued within 2 weeks of exit meeting with the Client	85%	<b>88%</b>	<b>G</b>
% of qualified staff engaged on audit	40%	<b>42%</b>	<b>G</b>

## Anti-Fraud

21. The Council has continued with its plan to improve counter-fraud awareness across the Council and to strengthen working with our partners. This has included:
- Annual Counter-Fraud newsletter for Members and staff communicating key counter-fraud messages, issues and cases;
  - Signing an SLA with the Department for Work and Pensions to begin again joint working, including joint interviewing and the sharing of data, intelligence and evidence
  - Implementing a learning and development programme, including face to face and e-learning opportunities.
  - Becoming a pilot authority in the London Counter fraud Hub which it is hoped will ultimately drive up detection of fraud and corruption against the council by the use of advanced data analytics.
22. As a result of this work, high and improved levels of awareness of fraud have been achieved generally across the organisation over recent years. This has been evidenced by the level of referrals to the Corporate Anti-Fraud Team.

### *National Fraud Initiative (NFI)*

23. The NFI is a biennial data matching exercise undertaken by the Cabinet Office. This is a national exercise and every Council in England and Wales participates, along with many other public sector bodies. The exercise has legal powers to undertake data-matching across the public sector to prevent fraud and corruption. The Council's participation in the 2017/18 round identified **£241k** of fraud or error, for which recovery action will be taken where possible. The Cabinet Office has just released the 2018/19 exercise to local authorities and officers across the council will be working through the 6,500 records identified for checking.

### *Corporate Anti-Fraud Team performance*

24. By the end of January 2019 the team had identified in total over **£983k** (against an annual target of £1m) with 137 successful outcomes including the recovery of 7 council properties and recovered 19 Blue Badges that were being misused. Also identified is an organised fraud with blue badges. Demand for available disabled parking is expected to increase from April this year, when the qualifying conditions are extended to those with mental health conditions. The team continues to work with colleagues from across London on this organised fraud and is committed to identifying and stopping the organisers, as well as those using the fraudulent badges.
25. The fraud team in 2018/19 has continued to have several complex cases requiring a multi-agency approach to deal with the issues of fraudulent activity identified. These have resulted in some very good local press

coverage. The team has also recently featured in the prime-time BBC1 programmes 'Britain on the Fiddle' and 'Council House Crackdown'.

26. Croydon continues to lead in setting the agenda relating to public sector anti-fraud activity. This is achieved nationally, regionally and locally by taking a leading role in a number of organisations, including:
- The National Anti-Fraud Network, with representation on the Executive Board
  - London Audit Group, with representation on the Executive Board
  - The London Counter Fraud Hub, Croydon was chosen as one of the pilot local authorities to test and develop this potentially ground breaking project which, if successful, would see London come together to share data to identify and stamp out fraud.
  - The APEX Audit & Anti-Fraud Partnership which is organised and hosted by Croydon Council and provides internal audit to 40 other local authorities
  - The Government Counter Fraud Profession, Croydon was invited to join the working group developing counter-fraud as a recognised profession across the public sector.

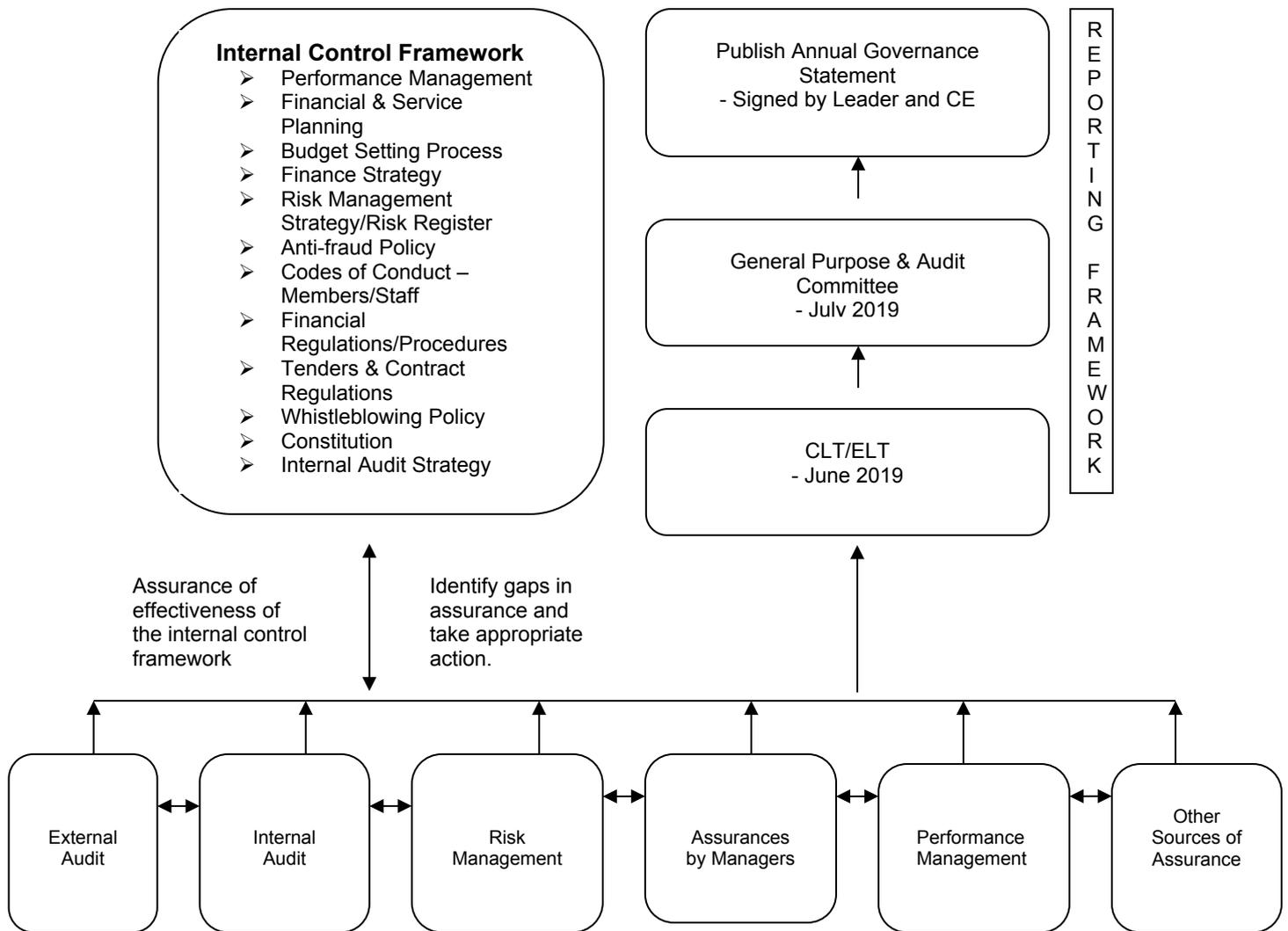
### **External Audit**

27. The Council's external audit service is currently provided by Grant Thornton (GT) under a contract let on Croydon's behalf by Public Sector Audit Appointments Ltd. GT works in partnership with the Council ensuring its governance processes are effective. They have been invited and attended all of the Committee meetings. At every meeting they prepare an external audit progress update for the Committee to review and discuss any issues arising.

### **Financial Reporting**

28. In July 2018, the Committee reviewed the annual accounts in detail asking a number of questions before approving them in advance of publication. This timescale reflected a shortening of two months by the Government in the timetable. This review will now be carried out in July each year.

**Council Framework for the Annual Governance Statement**



**COUNCIL ASSURANCE FRAMEWORK**

- |  |   |   |   |   |  |
|--|---|---|---|---|--|
| <ul style="list-style-type: none"> <li>➤ Annual plan</li> <li>➤ Reports to those charged with governance</li> <li>➤ Scrutiny of reports at General Purposes &amp; Audit Committee</li> <li>➤ Audit opinion</li> <li>➤ Ad hoc projects</li> </ul> | <ul style="list-style-type: none"> <li>➤ Head of Internal Audit's opinion expressed in reports to General Purposes &amp; Audit Committee</li> <li>➤ Operates under dedicated contract specifically setting out terms of reference</li> <li>➤ Annual plans, member reviewed</li> <li>➤ Plan aligned to Council 's Risk-register</li> <li>➤ Fraud investigation</li> <li>➤ Compliance testing</li> <li>➤ Review of the effectiveness of Internal Audit</li> </ul> | <ul style="list-style-type: none"> <li>➤ On-going Risk management training for new staff</li> <li>➤ Embedded in project management and service planning</li> <li>➤ RM champion, General Purposes &amp; Audit Committee and Council scrutiny of the RM processes and outcomes</li> <li>➤ RM software package cascaded throughout council to all risk owners</li> <li>➤ Strategic risks drive and shape the CLT agenda</li> <li>➤ Review of partnerships</li> </ul> | <ul style="list-style-type: none"> <li>➤ Directors assurance statements</li> <li>➤ Project specific reports to CLT and Members</li> </ul> | <ul style="list-style-type: none"> <li>➤ Embedded system</li> <li>➤ Operates throughout organisation</li> <li>➤ Internal &amp; external reviews</li> <li>➤ Action orientated</li> <li>➤ local KPI's</li> <li>➤ Periodic progress reports</li> <li>➤ Performance Management function</li> <li>➤ Scrutiny Function</li> </ul> | <ul style="list-style-type: none"> <li>➤ Fraud reports and investigations</li> <li>➤ Reports by inspectors</li> <li>➤ Post implementation reviews of projects</li> <li>➤ Working party reports</li> <li>➤ Ombudsman reports</li> <li>➤ Contracts &amp; Commissioning Board</li> <li>➤ Strategic Finance Forum</li> <li>➤ Corporate Programme Board</li> <li>➤ Fraud &amp; Enforcement Forum</li> </ul> |
|--|---|---|---|---|--|

## Categories of Risk

	Source of Risk	Risk Examples
<b>STRATEGIC</b> (external drivers)	Infrastructure	Functioning of transport, communications and utilities infrastructure. The impact of storms, floods, pollution. Development in Borough renders infrastructure inadequate.
	Politics & Law	Effects of changes of government policy, UK or EC legislation, national or local political pressure or control, meeting the administration's manifesto commitments.
	Social Factors	Effects of changes in demographic, residential and social trends on ability to deliver objectives. Excess demands on services.
	Technology	Capacity to deal with obsolescence and innovation, product reliability, development and adaptability or ability to use technology to address changing demands.
	Competition & markets	Affecting the competitiveness (cost & quality) of the service &/or ability to deliver Best Value and general market effectiveness.
	Stakeholder-related factors	Satisfaction of: citizens, users, central and regional government and other stakeholders regarding meeting needs and expectations.
	Environmental	Environmental consequences of progressing strategic objectives (eg in terms of energy efficiency, pollution, recycling emissions etc.)

<b>OPERATIONAL</b> (internal drivers)	Finance	Associated with accounting and reporting, internal financial delegation and control, failure to prioritise or allocate budgets. Insufficient resources or lack of investment.
	Human Resources	Recruiting and retaining appropriate staff and applying and developing skills in accordance with corporate objectives, reliance on consultants, employment policies, health & safety, and absence rates. Migration of staff to contact centre.
	Contracts & Partnerships	Failure of contractors to deliver services or products to the agreed cost & specification. Issue surrounding working with agencies. Procurement, contract and relationship management. Overall partnership arrangements, eg for pooled budgets or community safety. PFI, LSVT and regeneration. Quality issues.
	Tangible Assets	Inadequate building/assets. Security of land and buildings, safety of plant and equipment, control of IT hardware. Issue of relocation.
	Environmental	Relating to pollution, noise or the energy efficiency of ongoing operations.
	Processes & professional judgements	Errors and omissions associated with professional judgement. Inspection compliance, project management, performance management, benefits system, environmental management system (EMS). Not achieving targets, failure to implement agendas and service failure. Also risks inherent in professional work.

<b>GOVERNANCE</b>	Integrity	Fraud and corruption, accountability and openness, legality of actions and transactions and limits of authority.
	Leadership	Reputation, publicity, authority, democratic renewal, trust and identity.
	Policy & strategy	Ensuring clarity of purpose and communication. Policy planning, community planning and monitoring and managing overall performance. Not seeking or following advice from the centre.
	Data & information for decision making	Data protection, data reliability and data processing. Information and communication quality. Effective use and interpretation of information. Control of data and information. E-government and service delivery. Inappropriate and/or lack of software. Storage issues.
	Risk Management	Incident reporting and investigation, risk measurement, evaluation and monitoring. Internal Control and Business Continuity Issues.



<b>REPORT TO:</b>	<b>GENERAL PURPOSES AND AUDIT COMMITTEE</b> <b>4 April 2019</b>
<b>SUBJECT:</b>	<b>UPDATE ON IN-YEAR APPOINTMENTS</b>
<b>LEAD OFFICER:</b>	<b>Jacqueline Harris Baker</b> <b>Executive Director of Resources</b>
<b>CABINET MEMBER:</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Resources</b>
<b>WARDS:</b>	<b>All</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON:</b> The in-year appointments detailed in this report have been made in keeping with the Council's Constitution.	
<b>FINANCIAL IMPACT:</b> There are no financial implications arising from the content of this report.	

## 1. RECOMMENDATIONS

- 1.1 The Committee is asked to note the in-year appointments made either under delegated powers or the Leaders' Executive Powers as detailed in paragraph three of the report.

## 2. EXECUTIVE SUMMARY

- 2.1 This report updates Members on a number of in-year appointments made either by the Leader of the Council under executive powers or by the Council Solicitor under delegated powers since the last meeting of the Committee. The majority of these appointments have been made following the recent passing of Councillor Maggie Mansell.

## 3. IN-YEAR APPOINTMENTS

### Executive Appointment made by the Leader of the Council

- 3.1 Councillor Simon Hall has been appointed to the vacancy on the Health and Wellbeing Board.

### Appointments to Vacancies under delegated authority by the Council Solicitor

- 3.2 Following consultation with the party whips, and pursuant to Part 2 Article 4.1(f) of the Constitution, the following in-year appointments have been made by the Council Solicitor:

- (i) Councillor Jerry Fitzpatrick has been appointed to the vacancy on the Pension Board
  - (ii) Councillor Jane Avis has been appointed to the vacancy on the Housing Disability Panel
  - (iii) Councillor Andrew Pelling has been appointed to the vacancy for a reserve Member on the Planning Committee
  - (iv) Councillor Pat Clouder has been appointed to the General Purposes and Audit Committee to replace Councillor Jerry Fitzpatrick
- 3.3 Following consultation with the Chair of the General Purposes and Audit Committee and pursuant to Article 4.1(g) of the Constitution, the following in-year appointments have been made to outside bodies:
- (i) Councillor Nina Degrads has been appointed to the vacancy on Mitcham Common Conservators
  - (ii) Councillor Clive Fraser has been appointed to Mitcham Common Conservators to replace Councillor Janet Campbell

Appointments made by the Scrutiny Committee

- 3.4 At its meeting on 11 February 2019, and pursuant to paragraph 2.4 of part 4E of the Constitution, the Scrutiny and Overview Committee resolved to make the following in-year appointment:
- (i) Councillor Callton Young be appointed to the vacancy on the Scrutiny Children and Young People Sub-Committee.

#### **4. CONSULTATION**

- 4.1 In accordance with the Constitution, these in-year appointments have been made following consultation with Group Whips and the Chair of the General Purposes and Audit Committee where required

#### **5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

- 5.1 There are no financial implications arising from the contents of this report.

Approved by: Approved by Lisa Taylor, Director of Finance, Investment and Risk, Interim S151 Officer.

#### **6. LEGAL CONSIDERATIONS**

- 6.1 The Director of Law and Governance comments that the above in-year appointments have been made in keeping with the Council's Constitutional requirements.

Approved by: Sean Murphy, Director of Law and Governance & Deputy Monitoring Officer.

## **7. HUMAN RESOURCES IMPACT**

7.1 There are no human resources implications arising from the content of this report.

Approved by: Sue Moorman, Director of Human Resources.

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**CONTACT OFFICER:** Stephen Rowan, Head of Democratic Services and Scrutiny

### **APPENDICES TO THIS REPORT**

None

**BACKGROUND DOCUMENTS:** None

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