

# The Audit Findings Report for the London Borough of Croydon

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Year ended 31 March 2019

**23 July 2019**



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

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Croydon ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on page 4 to 13. To date we have identified one amendment to the overall financial position reported within the Statement of Comprehensive Income and Expenditure. A number of other audit adjustments have been identified and are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete, subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>- completion of our testing in a few areas (refer to the following page for more detail)</li><li>- completion of our internal quality review process;</li><li>- receipt of management representation letter;</li><li>- review of the final set of financial statements;</li><li>- completion of our work on the Whole Government Accounts (WGA) Exercise.</li></ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>Members will be aware that we identified two significant VFM risks as part of our Audit Plan for 2018-19, which were as follows:</p> <ul style="list-style-type: none"><li>• The Council's Financial Sustainability, including the Council's arrangements for addressing the risks arising from Brexit</li><li>• OFSTED Inspection of Children's Services</li></ul> <p>At this date we have not completed our work in respect of these areas, and thus anticipate issuing our Value for Money Conclusion at a later date. When we do so, we will issue a supplementary Value for Money Report detailing our work in this area and our proposed conclusion.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Council's Whole of Government Accounts (WGA) Return, and the Pension Fund Annual Report.</p>

## Acknowledgements

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

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 11 February 2019

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion on your financial statements following the General Purposes and Audit Committee meeting on 23 July 2019, as detailed in Appendix E. These outstanding items include:

- completion of our testing in the following areas: Pension Liability – including the impact of McCloud and GMP, Debtors, Creditors, Income and Expenditure
- completion of our internal quality review process;
- receipt of management representation letter;
- review of the final set of financial statements;
- completion of our work on the Whole Government Accounts (WGA) Exercise.

# Our approach to Materiality

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

Our assessment of materiality and related measures has been adjusted to reflect the change in Gross Expenditure in 2018/19, when compared to the spend incurred in the previous year. We detail in the table below our assessment of materiality for the London Borough of Croydon and the Group.

	<b>Council Amount (£) – Planning Stage</b>	<b>Council Amount (£) – Final Accounts</b>	<b>Qualitative factors considered</b>
Materiality for the financial statements	£22.572m	£25.323m	As mentioned above, the value of our overall Materiality threshold increased from the planning stage to the final Accounts stage due to the increase in expenditure incurred during the course of the year.
Performance materiality	£16.929m	£18.992m	Performance Materiality is based on a percentage of the overall materiality, hence an increase in this value has increased Performance Materiality in line with this.
Trivial matters	£1.129m	£1.266m	As above, Triviality is based on a percentage of the overall materiality, hence a increase in this value has increased Triviality.
Materiality for specific transactions, balances or disclosures – Senior Officer Remuneration	£100,000	£100,000	We selected a value of £100,000 for this area as an error of this size would impact on the banding within which these Managers would sit, which we have determined is something that the users of the Accounts would be interested in.
	<b>Group Amount (£) – Planning Stage</b>	<b>Group Amount (£) – Final Accounts</b>	<b>Qualitative factors considered</b>
Materiality for the financial statements	£23.483m	£38.000m	As mentioned above, the value of our overall Materiality threshold increased from the planning stage to the final Accounts stage due to the increase in expenditure incurred during the course of the year.
Performance materiality	£17.612m	£28.500m	Performance Materiality is based on a percentage of the overall materiality, hence an increase in this value has increased Performance Materiality in line with this.
Trivial matters	£1.174m	£1.900m	As above, Triviality is based on a percentage of the overall materiality, hence a increase in this value has increased Triviality.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

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:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including the London Borough of Croydon, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for the London Borough of Croydon.

To support this assessment, we have completed the following work in respect of this risk:

- reviewed and tested the Council's revenue recognition policies
- performed testing on material revenue streams

Our audit work to date has not identified any significant issues in relation to the risk identified.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work to date has not identified any significant issues in relation to the risk identified.

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of Property, Plant and Equipment</b></p> <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><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• evaluated 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>• evaluated the competence, capabilities and objectivity of the valuation experts;</li> <li>• written to the valuer to confirm the basis on which the valuation was carried out;</li> <li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>• tested revaluations made during the year to see if they had been input correctly into the Council's asset register;</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul> <p>The work completed to date has not identified any issues in respect of this area. Should any issues be identified from our outstanding work, then we will provide an update to Management and the Committee.</p>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

4

### Valuation of Pension Fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£646 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.

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.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's Pension Fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the assumptions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the Pension Fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertaken 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 have also ensured that Brexit has been considered when arriving at the values included within the Accounts.

### McCloud

The Court of Appeal ruled that there age discrimination in the judges and firefights pension schemes where transitional protections were given to scheme members. During the course of the audit, the Government was refused leave to appeal clarifying the legal status. The ruling is applicable to other transitional schemes including the Local Government Pensions Scheme of which the Council is part of. As a result of the judgement an increase in the pension liability is expected to exist. The Council have obtained an updated valuation from their Actuary, Hymans Robertson, which has increased the Past Service Cost by **£6.7m**, which has been updated in the revised Accounts.

Should any further issues be identified from our outstanding work, then we will provide an update to Management and the Committee.



## Significant findings – audit risks



Risks identified in our Audit Plan	Commentary
<p><b>5</b> <b>Transfer of Properties from Council to the Pension Fund</b></p> <p>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.</p>	<p><b>Auditor commentary</b></p> <p>During the course of our work in this area, we identified that this transaction had not taken place during the course of the 2018/19, and therefore there is no impact on the 2018/19 Statement of Accounts. We will continue to monitor progress on this proposed transaction in future financial years.</p>

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# Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
<b>Brick by Brick Croydon Limited</b>	Grant Thornton UK LLP	<p>During the testing on Unrecorded Liabilities, it was identified that £1.672m of expenditure had been excluded from the draft Accounts, which has subsequently been amended in the revised Brick by Brick Accounts.</p> <p>It was also identified that there no formal loan agreements in place between Brick by Brick and the Council for some of the balances drawn down by Brick by Brick during the course of the year to start development.</p>	<p>This will impact the overall Group position by the £1.672m identified from the testing performed.</p> <p>No overall impact on our Group Audit – noted for reporting purposes</p>


# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR Appeals - £7,649k</b>	The Council is responsible for repaying a proportion of successful rateable value appeals. The calculation for the Provision is performed internally by the team responsible for monitoring Business Rate collection across the Borough. The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The Provision included within the Accounts has increased significantly in 2018/19 due to the Council taking part in the Business Rate Retention Scheme across London, which whilst increasing the level of income the Council receives, also means the Council takes on more of the risk of non-collection.	<ul style="list-style-type: none"> <li>Based on the work performed, we have gained assurance with the approach taken by management in calculating this Provision.</li> <li>The methodology used by the Council is consistent with that used in previous years, and is based on the latest appeals notified to the Council by the VOA, and an assessment of the likelihood of success of the outstanding appeals.</li> </ul>	 <b>Green</b>
<b>Land and Buildings – Council Housing - £954m</b>	The Council owns 13,475 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its internal valuer to complete the valuation of these properties. The year end valuation of Council Housing was £954m, a net decrease of £36m from 2017/18 (£990m).	<ul style="list-style-type: none"> <li>From the work performed in this area, we have gained assurance over the valuation of the Council's Housing Stock included within the Accounts.</li> <li>The valuer has correctly prepared the valuation using the Stock Valuation Guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the Accounts.</li> <li>The valuation has been prepared as at 31 March 2019, which removed the need for any additional exercise to assess any movement between the date of the valuation and the balance sheet date.</li> </ul>	 <b>Green</b>





## Assessment

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

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other - £766m</b>	<p>Other land and buildings comprises £583m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings (£183m) are not specialised in nature and are required to be valued at existing use in value (EUJ) at year end. The Council has engaged the internal valuer to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 88% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net decrease of £10m.</p> <p>Management has considered the year end value of non-valued properties, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value recorded within the Accounts. .</p> <p>The total year end valuation of Other land and buildings was £766m, a net decrease of £33m from 2017/18 (£799m).</p>	<ul style="list-style-type: none"> <li>From the work performed in this area, we have gained assurance over the valuation of the Council's Other Land and Buildings included within the Accounts.</li> <li>The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including the assumptions that were going to be applied to this work.</li> <li>We have reviewed the assumptions applied by the Valuer, and have confirmed they are reasonable and appropriate given the nature of the assets held by the Council.</li> <li>We have considered the work which the valuer has done on those assets not valued as at the 31<sup>st</sup> of March 2019 to confirm that their fair value is not materially different to their carrying value included within the Accounts. From the work performed, we were able to gain assurance over the assessment made by the valuer in this area, which provides us with sufficient assurance over the values included within the Accounts.</li> </ul>	 <b>Green</b>

## Assessment

-  - **Red** - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  - **Amber** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																																
<p><b>Net pension liability – £646m</b></p> <p>The Council's total net pension liability at 31 March 2019 is £646m (PY £594m), comprising the London Borough of Croydon Pension Fund Local Government and unfunded defined benefit pension scheme obligations.</p> <p>The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £6.3m net actuarial gain during 2018/19.</p>	<ul style="list-style-type: none"> <li>The Council has used Hymans Robertson as their Actuary for a number of years, and thus we gained an understanding of their competence and capability to provide the valuations required by the Council in respect of the net pension fund liability as at the 31 March 2019.</li> <li>We have reviewed the assumptions made by the actuary when calculating the IAS26 costs included within the Accounts to confirm their reasonableness. We made use of PwC, as an Auditor's Expert to obtain assurance over this area. A summary of the work performed can be seen in the table below:</li> </ul> <table border="1" data-bbox="675 479 1732 1055"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4-2.5%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4-2.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.0%</td> <td>1-3.5%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45</td> <td>24.0</td> <td>23.7 – 24.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45</td> <td>26.2</td> <td>26.2 – 26.9</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 65</td> <td>22.3</td> <td>21.5 – 22.8</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 65</td> <td>24.4</td> <td>24.1 – 25.1</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Based on the table above, we were able to gain assurance over the assumptions applied by Hymans Robertson to value the Council's Pension Fund Liability as at the 31<sup>st</sup> of March 2019, subject to the consideration of the McCloud issue mentioned elsewhere in the Report, along with the impact of GMP Equalisation, which is likely to have impact on the Fund in following years.</li> </ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4-2.5%	●	Pension increase rate	2.5%	2.4-2.5%	●	Salary growth	3.0%	1-3.5%	●	Life expectancy – Males currently aged 45	24.0	23.7 – 24.4	●	Life expectancy – Females currently aged 45	26.2	26.2 – 26.9	●	Life expectancy – Males currently aged 65	22.3	21.5 – 22.8	●	Life expectancy – Females currently aged 65	24.4	24.1 – 25.1	●	<p style="text-align: center;">●</p> <p style="text-align: center; color: green; font-weight: bold;">Green</p>
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## Assessment

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# Other communication requirements

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

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the General Purposes and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is included in the papers for this Committee.</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> <li>We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>As can be seen within the Report, we have identified several issues with the draft accounts, some of which are due to the pressures of preparing accounts of this scale within a reduced timeframe. The Council should look to ensure that there are sufficient resources available to support the preparation of the accounts to help reduce the number of audit adjustments identified from our work.</li> </ul>

# Other responsibilities under the Code

Issue	Commentary
<p>1 <b>Other information</b></p>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>We identified a couple of areas where management has agreed to include additional narrative to enhance the transparency of the disclosures. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
<p>2 <b>Matters on which we report by exception</b></p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<p>3 <b>Specified procedures for Whole of Government Accounts</b></p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>At the date of issuing this Report our work in this area had yet to be started, and we will complete this once we have completed our work on the Council's Accounts.</p>
<p>4 <b>Certification of the closure of the audit</b></p>	<p>We are unable to certify the closure of the 2018/19 audit of the London Borough of Croydon in the audit opinion, as detailed in Appendix E. This is due to the work on the Pension Fund Annual Report, for which the deadline is the end of November 2019.</p>

# Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

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


Service	£	Threats	Safeguards
<b>Non-audit related</b>			
CFO Insights Subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this subscription 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 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.

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. None of the services provided are subject to contingent fees.






# Action plan

We have identified one recommendation for the group as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>1</p> <p> <b>Amber</b></p>	<p><b>Incomplete Accruals of Income and Expenditure</b></p> <p>During the course of our work on Income and Expenditure, we identified several items which had either been incorrectly accrued, or had not been accrued, both from an income and expenditure perspective. Whilst we were able to gain assurance that the impact of these errors was not material, the Council should look to strengthen its controls in this area to ensure the Accounts contain all of the relevant items in following years.</p>	<ul style="list-style-type: none"> <li>Revisit the Council's Accruals processes to ensure that items are correctly treated during the accounts preparation process. The Council should consider whether any de minimus limits are set appropriately to ensure time is focused on those areas which could have a material impact on the Accounts.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council will review its accrual process during 2019/20 ready for closing the accounts. This will focus on areas where accruals are likely to be material.</li> </ul>

## Controls

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

# Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Croydon's 2017/18 financial statements, which resulted in four recommendations being reported in our 2017/18 Audit Findings Report relating to the accounts audit. We have followed up on the implementation of our recommendations and note two of these are still in progress, and will be carried forward to next year's audit.


Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
①	<p><b>X</b></p> <p><b>Accounting for new arrangements</b></p> <p>In the prior year, we raised a recommendation in respect of the need for the Council to consider the accounting arrangements for the new ventures which the Council is embarking on during the development process, rather than once the arrangement is in place. This mainly related to the setting up of Croydon Affordable Homes LLP, where due consideration was not given to the reverse lease premium the Council benefitted from under this arrangement.</p> <p>We highlighted that unless this was given appropriate consideration during the development process, then the Council could experience some unforeseen circumstances when preparing the financial statements at year end.</p>	<p>Based on our work in 2018/19, it is clear that there is further work for the Council to do in this area. We held a number of discussions over the potential transfer of Council Properties to the Pension Fund to reduce the Contribution Rate the Council needs to pay over to the Pension Fund. A significant number of discussions were required to determine that there was no financial reporting impact on the 2018/19 accounts as the transaction was not completed within the financial year.</p>
②	<p><b>✓</b></p> <p><b>Valuation of Property every Five Years</b></p> <p>During the course of our audit work in 2017-18 we identified there were some assets held by the Council which had not been revalued in the course of the rolling five year cycle which is employed by the Council. We highlighted that if all assets are not considered on a regular basis then there is a risk that the carrying value in the Accounts may be materially misstated.</p>	<p>Our work on PPE Revaluations during 2018-19 has highlighted that all assets (to a trivial level) have been revalued over the course of the last five years, and therefore satisfied this issue has now been resolved.</p>
③	<p><b>X</b></p> <p><b>Incorrect Data shared with the Valuer</b></p> <p>In the prior year we identified some issues with the integrity of the data passed to the Valuer ahead of the revaluation exercise, which could have potentially resulted in errors in the valuations performed by the Valuer. We highlighted the need for the Council to ensure the integrity of the data based to the Valuer ahead of the annual revaluation exercise.</p>	<p>During our work on the Council's valuations in 2018-19, we identified one property included in the valuation schedule which had been disposed by the Council in previous years and thus shouldn't have been revalued. We also identified a second property where the whole property was valued but the Council only owns a percentage of this property, and thus the whole value should not have been included in the accounts.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Croydon's 2017/18 financial statements, which resulted in four recommendations being reported in our 2017/18 Audit Findings Report relating to the accounts audit. We have followed up on the implementation of our recommendations and note three of these are still in progress, and will be carried forward to next year's audit.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	 <p><b>Declarations from Members and Senior Officers</b></p> <p>In previous years we have identified that the Council has not be able to obtain all of the returns from either Members or Senior Officers, which increases the risk of potential Related Party Transactions not being identified and disclosed in the Accounts. Thus there is a need for the Council to ensure that all of these returns are obtained to ensure they have a complete picture of all potential Related Parties.</p>	<p>We have not identified any issues with these returns from the work performed in 2018/19, so therefore we are satisfied this issue has been resolved.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

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

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p><b>1 Incorrect Treatment of NNDR Surplus</b> Due to the implementation of the London Business Rates Pool, which has increased the proportion of income which is due to the Council, the Council has incorrectly treated the change in Surplus, which means that MHCLG owe the Council an additional £2.45m more than disclosed in the Collection Fund.</p>	Cr NNDR Income 2,450	Dr Debtors – 2,450 Cr Collection Fund Adjustment Account – 2,450	• Reduced by 2,450
<p><b>2 Updated Pension Costs - McCloud and GMP</b> As mentioned earlier in the Report, the client updated their IAS19 figures to reflect the impact of McCloud and GMP on the Past Service Costs, which have increased by <b>£6.7m</b>. However the impact of these costs is reversed out via the Movement in Reserves Statement to the Pensions Reserve.</p>	Dr Past Service Costs 6,760 Cr MIRS 6,760	Dr Pensions Reserve 6,760 Cr Pensions Liability 6,760	Nil impact
<b>Overall impact</b>	<b>£2,450</b>	<b>£2,450</b>	<b>(£2,450)</b>

# Audit Adjustments

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

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The General Purposes and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p><b>1 Incorrect Treatment of Dedicated Schools Grant (DSG) Deficit</b></p> <p>Due to pressures within the High Needs Block within DSG the Council has provided additional funding in excess of the government grant to meet local needs and as a result has a cumulative DSG deficit of £9.3m at the end of 2018/19. Our audit views is that this amount should be recorded as a charge against the General Fund. The Council has shown the deficit amount as a Debtor indicating that the Council believes this amount is recoverable. Our audit view is that it is unlikely that this amount will be repaid and we consider the debtor should be impaired in full which would generate a charge on the General Fund.</p>	Dr Expenditure - 9,193	Cr Debtors – 9,193	<ul style="list-style-type: none"> <li>An increase of £9,193k</li> </ul>	<p>The Council has shown the DSG deficit as a debtor as we believe the DfE should correctly fund Council's, their guidance says that Council's should not have to cover shortfalls.</p> <p>We have submitted our recovery plan to the DfE and have confidence in our ability to deliver to it.</p>
<b>Overall impact</b>	<b>£9,193</b>	<b>£9,193</b>	<b>£9,193</b>	

# Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Value (£000)	Impact on the Accounts	Adjusted?
<b>Note 13 – Heritage Assets</b>	Various	The Heritage Assets Note was incorrectly omitted from the draft Accounts, and thus has been reinstated in the revised Accounts.	✓
<b>Note 28 – Exit Packages</b>	465	Our testing identified that the one of the Exit Packages paid by the Council had been included in the incorrect banding, which has subsequently been updated.	✓
<b>Note 31 – Grant Income</b>	1,117	During the course of our testing of this Note, we identified that £1,117k of National Domestic Rates Income had been included twice in the Note, leading to an overstatement of the total Grant Income received. The revised note has updated the balance from £715,510k to £714,383k	✓
<b>Note 32 – Related Party Transactions</b>	n/a – narrative	A number of Related Parties have been omitted from the draft Accounts, which have subsequently been reflected in the revised Accounts.	✓
<b>Note 34 – Leases</b>	5,418	During our testing of the Dwellings sold during the course of the year we have identified that the Net Book Value shown in the Note is overstated by £5,418k, with the correct value being updated to £52,155k	✓
<b>Note 42 – Fair Value of Employers Assets</b>	Various	Within this Note, the Private Equity Balance of £85,827k has been incorrectly omitted from the 'Quoted Prices not in Active Markets' Column. This will then also change the total of this Column at the bottom of the Note. Both of these have been updated in the revised Accounts.	✓
<b>Various Notes</b>	Various	A number of minor presentational and disclosure amendments have been made to the Accounts to enhance the transparency of the disclosures within the Accounts.	✓

# Fees

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

<b>Audit Fees</b>	<b>Proposed fee (£)</b>	<b>Final fee (£)</b>
<b>Council Audit</b>	133,102	TBC
<b>Audit of Brick by Brick Croydon Limited</b>	26,000	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£159,102</b>	<b>TBC</b>

Due to the issues in respect of McCloud mentioned earlier in the Report, and other challenges encountered during the course of the audit we are unable to confirm our final Audit Fee at this stage of proceedings. However we will provide an update to the Committee once we have agreed the final position with the Council and Public Sector Audit Appointments, who are responsible for approving fee variations across the Local Government Sector.

## Non Audit Fees

<b>Fees for other services</b>	<b>Fees £</b>
<b>Audit related services:</b>	
None	n/a
<b>Non-audit services:</b>	
• CFO Insights Subscription	10,000
• Adult Social Care Index	0
<b>Total</b>	<b>10,000</b>

As this is the first year of the Adult Social Care Index, the Council is being provided with a free Subscription, which would have a value of £12,500+VAT if a fee was charged



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