The Audit Findings Report for London Borough of Croydon

Financial Year ended 31 March 2020

14 March 2024

Contents

Your key Grant Thornton team members are:

Sarah Ironmonger
Key Audit Partner
T: +44(0)161 953 6499
E: Sarah.L.Ironmonger@uk.gt.com

Matt Dean
Director
T: +44(0)20 7728 3181
E: Matt.Dean@uk.gt.com

Rebecca Lister
Senior Manager
T: +44(0)20 7728 2529
E: Rebecca.Lister@uk.gt.com

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.

1. Headlines

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

Financial Statements

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

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

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was undertaken remotely over an extended period from October 2020 when the original draft financial statements were received. The majority of the audit work was completed by August 2021. At the same time we reported to officers that we did not agree with the accounting treatment of a complex technical issue relating to Croydon Affordable Homes. Officers sought external support and ongoing discussions were held until an agreed position was reached in February 2023. The resolution of all audit identified adjustments required officers to represent the draft financial statements which were then provided to the July 2023 Audit Committee. Given the scale of the adjustments additional audit work was required and the audit recommenced in August 2023.

Our findings to date are summarised on pages 4 to 37. We identified fourteen adjustments to the financial statements that have resulted in a £206 million adjustment to the Council's 2019/20 Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation, following a considerable update to reflect the challenges you have faced as an authority over the past three years.

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

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

Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion.

1. Headlines

Financial Statements	(continued from previous slide)	Our anticipated audit report opinion will be **modified with a disclaimer opinion**, further details of the modification to the audit opinion can be found below. The audit opinion will also include an emphasis of matter paragraph highlighting Land and buildings, Investment Property and Pension Fund Liability valuation material uncertainty disclosures as a result of the material valuation uncertainty imposed by the covid-19 pandemic. This will apply to both the single entity and group financial statements and is consistent with other council audit opinions for 31 March 2020. **Basis for Audit Opinion** **Disclaimer Opinion** Our report in the public interest issued in January 2022 outlined our concerns over the historical decision making and governance arrangements relating to the refurbishment of Fairfield Halls. Our report in the public interest highlighted potential non-compliance with laws and regulations. As a result of the report issued in the public interest, the Council engaged KROLL to perform a forensic investigation. The Council's consideration of the KROLL report and other reports including the two Reports in the Public Interest, led to the Council referring matters to the Police to consider whether there is a case to answer under the Misuse of Public Office. As a result of the ongoing Police investigations, management are unable to quantify if there is a potential impact of those investigations on the financial statements or whether any instances of fraud have occurred. We consider that the ongoing Police investigation limits our ability to conclude on the Council's compliance with laws and regulations and as a result of these matters, we are unable to: • Respond appropriately to suspected non-compliance with laws and regulations identified during the audit; • Obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements; and • Perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We have concluded that the possible effects on the financial statements of undetected misstatements arising from these matters could be both material and pervasive, and therefore we have not been able to form an opinion on the financial statements.

1. Headlines

Financial Statements	(continued from previous slide)	**Basis for Audit Opinion (continued)** **Emphasis of Matter- Land and Building Valuations, Investment Property Valuations, Pension Liability** Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. The actuary for the pension fund has also disclosed a material valuation uncertainty within the actuarial report in relation to valuation of pension fund assets. This therefore extends to the council's share of pension assets used to inform the valuation of the net pension liability. You have included a disclosure within your accounts to reflect the material uncertainty within Note 4. We will reflect your disclosure within an Emphasis of Matter paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty as at 31 March 2020.

1. Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that London Borough of Croydon did not have proper arrangements in place during 2019/20 to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. The significant risks identified at planning and subsequent to the planning stage are outlined below. VfM significant risks identified at the planning stage communicated to TCWG within the audit plan on 17 March 2020: • The Authority's Financial Sustainability, including the Authority's arrangements for addressing the risks arising from Brexit • OFSTED Inspection of Children's Services • The Governance of the Authority's Alternative Delivery Models VfM significant risks identified subsequent to the planning stage and communicated to TCWG within the audit plan addendum on 2 December 2020: • Governance of Finance and Group Structures Subsequent to our audit plan addendum we identified a further value for money significant risk which we have performed audit procedures over: • The condition of the Council's Housing Stock A further explanation of the significant matters we have identified in the Council's arrangements is detailed on page 41 of this report. We anticipate issuing a qualified adverse value for money conclusion. Our findings leading to this conclusion are summarised in a separate report. We have not been able to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and therefore we anticipate issuing a qualified adverse opinion for securing value for money. A summary of our findings resulting in this conclusion can be found below: • The budget set for 2020/21 was deemed to be unrealistic and further reported within our October 2020 Public Interest Report (PIR); • Failings in financial management and governance reporting within our Public Interest Report which covered arrangements during 2019/20; • The Council issues its first Section 114 Notice in November 2020 after identifying an in-year £66m budget gap which the Council on its own could not resolve, indicating issues with the budget setting arrangements; • Issues were identified with the governance and oversight of the Council's wholly owned subsidiaries, which included wide ranging issues with the performance of Brick by Brick Croydon LLP, along with the striking off of the London Borough of Croydon Holdings Co. due to the Council failing to file the relevant paperwork in a timely manner; • Internal Audit issued an overall Limited Assurance Conclusion on the 2019-20 Financial Year, with a wide range of issues identified in a number of different areas of the Authority; • Issues were identified in respect of the quality of the Council's Housing Stock, with the conditions in Regina Road receiving national press attention which led to widespread condemnation for the issues that were raised; • The project to refurbish Fairfield Halls led to a second PIR. Fairfield Halls was reopened in September 2019 and the PIR refers to arrangements in 2019/20 and earlier; and • Poor arrangements to support the preparation of accounts leading to long delays in responding to audit queries. We will share the proposed wording of this conclusion once drafted. Our findings are also summarised in a separate report, which is published alongside this report on the Agenda.

1. Headlines

Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We exercised our additional statutory powers and duties by issuing two separate Reports in the Public Interest on 23 October 2020 and on 26 January 2022 relating to arrangements in place during 2019/20. Please refer to page 43 of this report for detailed findings of powers exercised.
Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council . This has had an impact on both the front-line services operated by the Council and back-office function roles, where individuals and service departments have had to get used to a new way of working as the pandemic has progressed. As a local authority you are at the forefront of efforts to support local people and clearly your focus will be directed to supporting the local community as best you can in these exceptionally difficult circumstances. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 24 November 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both the Council's finance team and our audit team had to adapt to remote working arrangements. Your finance team was well set up for remote working and there were no changes in key financial processes that impacted on our approach to your audit. Both teams had to be flexible in approaches to sharing information. We agreed to use video calling to watch your finance team run the required reports to gain assurance over completeness and accuracy of information produced by you. We made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries took longer than face to face discussion. Regular meetings were held with the finance teams to highlight key outstanding issues and findings to date. We used a query log to track and resolve outstanding items. By the conclusion of the audit, all restrictions relating to Covid-19 had been lifted and the latter stages of the audit reverted to face to face meetings.

2. Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

Audit approach (continued)

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

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

2. Audit approach

Our approach to materiality

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

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

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

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	We undertook the following work in relation to this risk: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. During our journals testing, we identified two control issues: understanding of the purpose of the journal; and self-authorisation of journals. **Purpose of the journal** Our testing identified a small number of journals which had been posted by members of the finance team without them being able to explain the rationale for these journals. When challenged further, these members of staff stated these journals had been prepared by the Head of Finance and they had taken assurance from that individual that the journals were reasonable and appropriate, and thus had posted these to the Ledger on this basis. This is a fundamental control failing. All staff members should be able to explain the journals that they have posted during the course of the year, even if these have been prepared by other members of the finance team as may happen on some occasions. We have raised a recommendation in Appendix A - **Recommendation 2** to ensure that controls around journals are tightened to prevent this from happening in the future. In terms of the journals themselves, we traced each of the journals identified back to the appropriate supporting documentation, and were able to speak to individuals in the Council who had more knowledge on the areas in question to gain sufficient assurance that these journals were proper and appropriate, and were not indicative of fraud. **Self-authorisation of journals** Our testing also identified that several journals had been posted and authorised by the same individual. This is not in line with the Council's Policies which prohibit the self-authorisation of journals. Although our testing showed that none of these journals were indicative of fraud, there is a control weakness that could give rise to the posting of inappropriate journals where no automated control or separate review is in place to ensure that a separate individual posts the journal from the individual who initiated the journal. We have raised a recommendation for Management in Appendix A - **Recommendation 9** to prevent this from happening moving forward as well. *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	*(continued from previous slide*) **Accounting Estimates and critical judgements** Our testing of the Council's bad debt provisions identified that management had unwound the housing benefit bad debt provision in 2019/20 when it was not prudent to have done so. Follow up work looking at collection rates post 2019/20 identified that the accounting estimate was not prudent based on up to date evidence which contradicted management's judgement to reduce the provision for 2019/20. Management therefore performed an opening the books exercise to identify areas of accounting estimates including bad debt provision where up to date information highlighted that provisions should be increased rather than decreased, this has led to an audit adjustment to increase the bad debt provision for 2019/20. We also identified from our review of the Minimum Revenue Provision charge that management had changed their policy in 2019/20 to not charge MRP on investment properties or loans made to their subsidiary company Brick by Brick. We felt this was not a prudent approach to calculating the relevant MRP charge and therefore management has agreed to adjust for a £6.7 million increase to the MRP charge to the general fund as a result of audit findings in this area. As outlined within page 14 of this report, within our testing of transformation expenditure and REFCUS we found a circa £7million extrapolated error of expenditure that had been capitalised under transformation expenditure which had no evidence to support capitalisation or did not meet the criteria required to capitalise as transformation funding. This essentially reduces the revenue impact when capitalised. However, as a result of the review of the accounting around the wider Croydon Affordable Housing structure, the Council has agreed to adjust all transformation expenditure as a revenue charge as it can no longer capitalise expenditure where it does not have a flexible capital receipt, and thus the initial error disappears as a result of this revised treatment. Within our testing of provisions, we identified a large legal claim which the Council was aware of had not been provided for, subsequently a £9.439 million adjustment has been made to the accounts, which required an additional capitalisation direction to cover. Our findings over accounting estimates especially bad debt provisions, MRP charge, provisions and capitalising expenditure has identified areas where errors identified have all impacted on the bottom-line financial position of the council. The vast majority of errors identified have resulted in a decrease to the general fund position. These issues have been identified through our testing of accounting estimates as opposed to journal entries. The vast majority of audit adjustments identified present a picture that increases the expenditure charge for 2019/20 which calls into question the risk of management override of controls within the 2019/20 accounts. We have performed substantive testing over the revised set of financial statements provided to audit by new management of the council and did not identify instances of management override of controls within the revised set of financial statements. *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	*(continued from previous slide)* Our Value for Money Work in respect of the redevelopment of Fairfield Halls and the related transactions led to a Report in Public Interest in January 2022. The Council subsequently engaged a forensic expert, Kroll. The Council's consideration of the resulting report and the wider reports on governance including the two Reports in the Public Interest led to the Council referring matters to the Police to consider whether there is a case to answer under the Misuse of Public Office. We understand that the case is being considered and we intend to issue a modification to the audit report to reflect the matters arising. As a result of the ongoing Police investigations, management are unable to quantify the potential impact of those investigations on the financial statements. We consider that the ongoing Police investigation limits our ability to conclude on the Council's compliance with laws and regulations. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances, the auditor shall evaluate the effect on the auditor's opinion in accordance with ISA (UK) 705. This requires the auditor to assess the pervasiveness of the effects or possible effects on the financial statements. **In our judgement, the effect of the suspected misconduct in public office could be material and pervasive, and therefore we have not been able to form an opinion on the financial statements.** We therefore have concluded a disclaimer of opinion due to the fact that we consider that the ongoing Police investigation limits our ability to conclude on the Council's compliance with laws and regulations and as a result of these matters, we are unable to: • Respond appropriately to suspected non-compliance with laws and regulations identified during the audit; • Obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements; and • Perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We have concluded that the possible effects on the financial statements of undetected misstatements arising from these matters could be both material and pervasive, and therefore we have not been able to form an opinion on the financial statements.

2. Significant findings – going concern

Our responsibility

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

Going concern material uncertainty disclosures

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

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

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

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

2. Significant findings – going concern (continued)

Going concern commentary	Auditor commentary
Management's assessment process	**Group**
The authority's accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of service in the future is anticipated, as evidenced by the inclusion of financial provision for that service in published documents.	The construction industry was significantly impacted by the Covid-19 pandemic with construction work having to be slowed down or stopped during the peak of the pandemic, shortages of labourers and increased costs in supplies and materials. These issues also impacted the subsidiary company Brick by Brick Croydon Ltd (Brick by Brick) which resulted in a loss for the company of **£803k** for the year ended 31 March 2020. The Council has now provided a letter of financial support to Brick by Brick and Brick by Brick is currently in the process of being wound up and once final developments are completed is due to be fully closed in 2024.
Concluding comments	We have been unable to conclude on the going concern assumption adopted by management as a result of the disclaimer opinion anticipated to be issued on the financial statements of both the Authority and Group. As the ongoing police investigations provide a limitation of scope which is so pervasive, we are unable to conclude on the financial statements as a whole and therefore it is not appropriate to conclude on whether the use of the going concern basis of accounting is appropriate or not.

2. Significant audit risks

Risks identified in our Audit Plan/Addendum	Risk relates to	Auditor commentary
The revenue cycle includes fraudulent transactions **Income from fees and charges and other service income** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue, which we initially rebutted for both the Group and the Council Audits. We have now concluded that we are unable to rebut that risk for all revenue streams, due to the pressure on the overall financial position of the Group and Council. Our new assessment is that the greatest risk of material misstatement relates to fees and charges and other service income. This income stream is regarded as a significant risk as there is increased judgement from management regarding recognition of revenue from fees and charges and other service income compared to income streams such as council tax and NNDR, HRA rental revenues and government grants and contributions. We have therefore identified the occurrence and accuracy of fees and charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. We have still rebutted this presumed risk for the other revenue streams of the Group and Council because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and • opportunities to manipulate revenue recognition are very limited.	Group and Council	We undertook the following work in relation to this risk: • evaluated the Group and Council's accounting policy for recognition of income from fees and charges and other services for appropriateness; • gained an understanding of the Group and Council's system for accounting for income from fees and charges and other services and evaluated the design of the associated controls; • agreed, on a sample basis, amounts recognised as income from fees and charges and other services in the financial statements to appropriate and sufficient audit evidence to gain assurance over the occurrence and accuracy of income. From the work performed to date, we have identified three issues relating to the Allowance for Credit Losses included within the draft Accounts. Firstly our review of the element of this Allowance relating to Housing Benefit Debtors identified that the calculation initially performed by the Council was incorrect, leading to an understatement of this element by **£1.5 million**. Secondly, during the course of the audit, the Council identified a considerable balance relating to outstanding Schools Utility Charges which were several years old and hence an Allowance should have been made against these items. It was identified that the additional Allowance required for these charges was **£4.5 million**. Further investigation also identified that the calculation of the outstanding Schools Utility Charges had omitted **£3.1 million** of invoices which were raised in 2019/20 but relates to costs incurred over previous years, some items going as far back as 2012. As these items were not accrued for in previous years, it means the closing Receivables balance at 31 March 2019 was understated by this balance, which meant that the provision made of **£4.5 million** was understated based on the age profile of this debt. Given the age profile of the debt the Council has written off this debt and provision as unrecoverable income which has been included as an audit adjustment as part of the 'Opening the Books' Exercise outlined below. As a result of issues identified in relation to understatement of receivable credit loss allowance, management performed a detailed review of this balance as part of their 'Opening the Books' Exercise which identified a **£25.162 million understatement** of the prior credit loss allowance, which has been updated in the revised accounts, and thus has seen a reduction in the General Fund balance equivalent to this balance. Thirdly, we identified that Management were initially of the view that no allowance for credit loss assessment was required for the loans issued to Brick by Brick Croydon Ltd, due to the fact that Brick by Brick is wholly owned by the Council and thus would prevent any loss. An assessment was subsequently performed by management in November 2023 which identified no impairment was needed for 2019/20 but will have an impact on the position in 2020/21. Our view is that not all of the loans were recoverable by the Council at 31 March 2020 and therefore an adjusting post balance sheet event has occurred that requires adjustment to the 2019/20. *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan/Addendum	Risk relates to	Auditor commentary
The revenue cycle includes fraudulent transactions **Income from fees and charges and other service income** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue, which we initially rebutted for both the Group and the Council Audits. However for both audits, we have now concluded that we are unable to rebut that risk for all revenue streams, due to the pressure on the overall financial position of the Group and Council. Our new assessment is that the greatest risk of material misstatement relates to fees and charges and other service income. This income stream is regarded as a material risk as there is increased judgement from management regarding recognition of revenue from fees and charges and other service income compared to income streams such as council tax and NNDR, HRA rental revenues and government grants and contributions. We have therefore identified the occurrence and accuracy of fees and charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter. We have still rebutted this presumed risk for the other revenue streams of the Group and Council because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and • opportunities to manipulate revenue recognition are very limited.	Group and Council	*(continued from the previous page)* Management's revised assessment provided in December 2023 has concluded that as at 31 March 2020 a lifetime credit risk impairment of **£51.696 million** is required to loans made to subsidiary Brick by Brick as a result of expected anticipated sales proceeds not being sufficient to clear the outstanding debt as at 31 March 2020. This has resulted in a charge to the general fund which is subsequently reversed out to the capital adjustment account under CIPFA accounting requirements Our testing on income completeness identified an invoice raised in 2020/21 which related to services provided in 2019/20 and was above the Council's deminimus level for items to be accrued. We were informed that this item was not raised in a timely manner due to the pressures of the pandemic, but despite this the Council needs to ensure items like this are raised in a timely manner or accrued for to ensure inclusion within the Financial Statements. We extended our testing sample and did not identify any further instances of income not being accrued for in the correct financial year. We did raise a similar issue in the prior year– refer to Appendix B for further detail on this. **We identified a number of errors across our testing populations for revenue and associated receivables as a result of lack of evidence provided to audit. New management were able to follow up on the missing evidence and reduce the number of errors identified as a result of missing evidence. Errors identified in our substantive testing are not material nor have a material extrapolation impact.** **Based on our audit work we have not identified any material unadjusted misstatements relating to revenue recognition, except for any issues that may have arisen from the matter that is the subject of the disclaimer opinion.**

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
The expenditure cycle includes fraudulent transactions **Completeness of operating expenditure and associated creditor balances** Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition, needs to be considered as a potential significant risk, especially where organisations are required to meet financial targets. Due to the pressure to deliver a balanced budget, the low level of general fund reserves held by the Council and in year budget overspends there is a risk over the completeness of your operating expenditure and associated creditor balances. We have therefore identified the completeness of operating expenditure and associated creditor balances as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	Group and Council	We undertook the following work in relation to this risk: • Evaluated the design and implementation effectiveness of the accounts payable system. • Verified that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General Ledger. • Searched for unrecorded liabilities by performing substantive testing on a sample of invoices input on to the accounts payable system post period end. • Searched for unrecorded liabilities by reviewing cash payments post period end. • Performed substantive testing on a sample of expenditure included within the year to make sure it is correctly recorded. • Performed substantive sample testing of liabilities recorded in the ledger to gain assurance that liabilities are accurate and not understated. • We also performed testing on the expenditure which has been classified as Transformational Expenditure in year to confirm it meets the requirements to be classified in this way. From the work performed to date, we have identified issues with transformation expenditure and the provision relating to a contractual dispute with a supplier. **Revenue Expenditure Funded from Capital Under Statute (REFCUS)** From our testing of items classified as REFCUS we identified • 9 items which did not meet the requirements to be treated in this manner, generating an actual error of £12,434 This generated an extrapolated error of £430,797. This is not material to the audit however outlines a trend of errors which highlight the understatement of expenditure within the Council's accounts. **Transformation expenditure** From our testing of items classified as Transformational Expenditure by the Council we identified • 7 items which did not meet the requirements to be treated in this manner, generating an actual error of **£258k**. This generated an extrapolated error of **£7.449 million**. Where we undertake sample testing we extrapolate the error across the whole population. As a result of these findings, and the 'Opening the Books' exercise undertaken by the Council, the accounting treatment of Croydon Affordable Housing LLP and Croydon Affordable Tenures LLP was re-reviewed by the external audit team based on further information being made available. This resulted in an updated view of the accounting treatment that should be applied based on the group structure. It was concluded that there is no capital receipt due from the Croydon Affordable Housing and Croydon Affordable Tenures group arrangement and therefore without a capital receipt the Council is unable to apply flexible use *(our commentary on this risk continues on the following page)*

2. Significant audit risks

Risks identified in our Audit Plan	Risk relates to	Auditor commentary
The expenditure cycle includes fraudulent transactions **Completeness of operating expenditure and associated creditor balances** Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition, needs to be considered as a potential significant risk, especially where organisations are required to meet financial targets. Due to the pressure to deliver a balanced budget, the low level of general fund reserves held by the Council and in year budget overspends there is a risk over the completeness of your operating expenditure and associated creditor balances. We have therefore identified the completeness of operating expenditure and associated creditor balances as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	Group and Council	*(continued from the previous page)* of capital receipts under Government Statutory Direction. Without a capital receipt from this arrangement, qualifying expenditure is unable to be capitalised and therefore all transformation expenditure since inception of the CAH and CAT LLP arrangements is required to be re-categorised as revenue expenditure. The total of transformation expenditure funded by flexible capital receipts removed due to the removal of Croydon Affordable Housing and Croydon Affordable Tenures capital receipts is **£73 million**. A current year audit adjustment and prior period adjustment has been included in the revised accounts resulting in a reduction in the General Fund position for 2019/20. We have raised recommendations in Appendix A - **Recommendations 3 and 14** to ensure that controls around application of flexible capital receipts are tightened to prevent this from happening in the future. **Provision** The Council entered into a Highways Maintenance contract with a third party beginning in September 2011 which ran for 7 years. At the end of the contract term the Council received a claim from the third party disputing there was unpaid works which fell within the scope of the Contract. The Council did not originally provide for the full amount and subsequently an adjusting post balance sheet event has been actioned increasing the provision by **£9.439 million** has been adjusted for within the financial statements with a corresponding expenditure charge to the general fund. **Unrecorded Liabilities** No issues have been identified from our testing completed in relation to unrecorded liabilities however we did identify an error where expenditure had been overstated as no accrual had been made in 2018/19 relating to a school grant owed in 2018/19 but paid in 2019/20. We obtained an understanding that this was isolated to this type of school grant and concluded the extent of this error to be £711k. **Operating Expenditure** We identified a number of errors across our testing populations for expenditure and associated liabilities as a result of lack of evidence provided to audit. New management were able to follow up on the missing evidence and reduce the number of errors identified as a result of missing evidence. Errors identified in our substantive testing are not material nor have a material extrapolation impact. **Based on our audit work we have not identified any material unadjusted misstatements relating to expenditure recognition, except for any issues that may have arisen from the matter that is the subject of the disclaimer opinion**.

2. Significant audit risks

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

2. Significant audit risks

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

2. Significant audit risks

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

2. Significant audit risks

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

2. Significant audit risks

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

2. Significant audit risks

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

2. Significant audit risks

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

2. Significant audit risks

Risks identified in our Audit Plan/Addendum	Risk relates to	Auditor commentary
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and Council	We undertook the following work in relation to this risk: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. A reduction was made to materiality levels previously reported at planning (see page 9 of this report for changes made to materiality levels). The draft financial statements were provided on 16 October 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. • engaged the use of an auditor expert to gain assurance over asset valuations. Due to the potential impact that Covid-19 has on the value of your land and buildings and council dwellings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within the property valuation report (in line with VPGA 10 of the RICS Red Book Global) as at 31 March 2020. An identical uncertainty has been included within the report for the Council’s Investment Properties as well. You have included a disclosure within your accounts to reflect the material uncertainty within note 4. We will reflect your disclosure within an “emphasis of matter” paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. A similar issue has been identified in respect of the illiquid assets held by the Pension Fund, where the Fund Managers have issued a material uncertainty over the valuation of these assets due to the impact of pandemic at 31 March 2020. Whilst a material uncertainty has been included in the Pension Fund Accounts, as these assets relate to the Council’s element of the Pension Fund, this uncertainty is carried forward to the Main Accounts as well, and will be covered via the ‘Emphasis of Matter’ Paragraph mentioned above. The emphasis of matter in relation to uncertainties of valuations on assets (land, buildings, investment properties and pension fund) is consistent to other local authorities in 2019/20.

2. Other audit risks

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

2. Significant findings arising from the group audit

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

2. Significant findings – other issues

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

Issue	Commentary	Auditor view
Dedicated Schools Grant (DSG) The Council had a cumulative overspend on the DSG of £14.524 million as at 31 March 2020. The balance was £9.193 million as at 31 March 2019 and this was treated as a debtor in the 2018/19 financial statements. In 2019/20 the Council changed its accounting treatment from a debtor to a negative earmarked reserve. SI 2020/1212 (Nov 2020) amended the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to require that where a local authority had a schools' budget deficit at 1 April 2020 or where a deficit now arises, the deficit must not be a charge to a revenue account and must be recorded in an account dedicated to recording the deficit.	In 2018/19 the Council recorded the overspend as a debtor, we considered this accounting treatment to be incorrect and recorded this as an unadjusted misstatement in that year. As it was not material you chose not to adjust for the error. In 2019/20 the Council revised its accounting treatment to move the overspend from debtors to a negative earmarked reserve.	The Council has now included a prior period restatement of 2018/19 to recognise an earmarked reserve for the dedicated schools grant overspend. We are satisfied this revised treatment by the Council meets the regulations. See page 56 in this report for further details of adjustment made.
Transformation Expenditure We noted from our Report in the Public Interest that the Council had invested £73 million of transformation expenditure in the previous three years yet the Council continue to experience overspends in areas heavily invested with transformation monies including both Children and Adults' Social Care.	The Council capitalised £29 million of transformation expenditure in 2019/20. The audit team performed substantive testing on the capitalised expenditure to gain assurance that expenditure capitalised was in accordance with the statutory guidance and that benefits were being realised from investment made.	As noted in the section on ETA schemes, no capital receipt was generated and all these transactions have now been corrected. It is worth noting we did undertake testing of sample of expenditure items charged to transformation and identified 7 out of 20 samples that were incorrectly classified in that they did not meet the criteria to be capitalised in line with statutory guidance. This generated an actual error of **£258k**, which resulted in an extrapolated error of **£7.449 million** and would result in a charge against the general fund. The total of transformation expenditure funded by flexible capital receipts removed due to the removal of Croydon Affordable Housing and Croydon Affordable Tenures capital receipts is £73 million. It is important that the Council reflects on the evidence it maintains to demonstrate that it has met the requirements of specific schemes going forward. See page 68 in this report for further details of adjustments made in respect of the errors identified. We have raised a recommendation in Appendix A - **Recommendation 3 and 14** to ensure that controls around application of flexible capital receipts are tightened to prevent this from happening in the future.

2. Significant findings – other issues

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

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

2. Significant findings – other issues

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

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

2. Significant findings – other issues

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

Issue	Commentary	Auditor view
Prudential Indicators The capital financing and expenditure note has incorrectly excluded PFI capital expenditure and expenditure and financing on property development loans therefore leading to a material restatement in the capital expenditure and financing note for the prior year comparator.	During the preparation of the draft 2019/20 financial statements the Council noted the omission of PFI expenditure and property development loans from the capital expenditure and financing note. This was also excluded from the 2018/19 note which led to an incorrect opening CFR position in 2019/20. The Council restated the disclosure note for 2018/19.	The Council corrected both the 2019/20 and restated the disclosure note for 2018/19 prior to providing the draft financial statements. We have reviewed the notes for 2019/20 and restated 2018/19 disclosures note and both are in line with the CIPFA Code guidance. There is no impact on the primary statements and affects the disclosure note only.
Fairfield Halls As part of our Report in the Public Interest on the Fairfield Halls refurbishment we identified that the asset remained in the Council's ownership throughout the refurbishment. The expenditure on the refurbishment has been recorded in the Council's draft financial statements as a long term debtor reflecting the loans to Brick by Brick who undertook the management of the refurbishment and accounted for the expenditure within Brick by Brick's accounts.	In line with accounting standards any capital expenditure against an asset should be capitalised on the balance sheet of the entity which owns that particular asset. In the draft financial statements the Council recorded the loans to Brick by Brick which funded the refurbishment of Fairfield Halls as long term debtors and the asset remained in the Council's Property, Plant and Equipment balance. Brick by Brick recorded the refurbishment expenditure in its accounts. The Group accounts consolidates this difference. Following discussion with the auditors, management proposed a revised treatment in a paper to Cabinet on 17 May 2021.	As the Council retained ownership of the asset, the expenditure in relation to the asset should be recorded in the Council's financial statements rather than in Brick by Brick's accounts. As a result • £62 million of capital additions have been added to the Council's accounts (£40m relates to years up to 2018/19 and has been accounted for as a prior period adjustment) • £62 million of long term debtors have been reversed • £9 million of interest included within debtors has been written back • The Capital Financing Note has been amended to reflect the changes • MRP in future years will now include a charge relating to the refurbishment expenditure See page 63 in this report for further details of adjustments made in respect of the errors identified.

2. Significant findings – other issues

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

Issue	Commentary	Auditor view

Brick by Brick Croydon Ltd
During our testing of debtors we noted a number of debtors where the Council had loaned money to its wholly owned subsidiary company Brick by Brick Croydon Limited. A number of the debtors recognised were in relation to loans where the repayment date was due by 31 March 2020 and had not yet been repaid.
	• £221 million of long term and short term debtors recognised on the Council's balance sheet related to loans that were overdue for repayment by Brick by Brick Croydon Ltd. IFRS 9 requires an organisation to consider credit loss assessment of financial assets. The Council had not performed a credit loss assessment of financial assets as at 31 March 2020.
	• In previous years the audit engagement team were able to perform a debtors circularisation to confirm the year end debtors balance in relation to loans provided to Brick by Brick by the council. As at 31 March 2020 we were unable to obtain a debtors circularisation response and therefore performed a sample test of debtors. In obtaining the audit evidence we identified a number of
	    • loans that were past their repayment date and had not yet been paid
	    • loan agreements that had not been signed by both the funding and receiving body or
	    • in some cases no evidence of loan agreements for the funds advanced to the subsidiary company.
	We have raised a recommendation in Appendix A - **Recommendation 6** to ensure that controls around the oversight of legal documents is strengthened.
		IFRS 9 requires the Council to perform a credit loss assessment of financial assets. An assessment was subsequently performed by management which identified no impairment was required for 2019/20 but would have an impact on the position in 2020/21. However our view was that not all of the loans were recoverable by the Council at 31 March 2020 and therefore an adjusting post balance sheet event has occurred that requires adjustment to the 2019/20 financial statements. Management's revised assessment has concluded that as at 31 March 2020 a lifetime credit risk impairment of **£51.696 million** is required to loans made to subsidiary Brick by Brick as a result of expected anticipated sales proceeds not being sufficient to clear the outstanding debt as at 31 March 2020. This has resulted in a charge to the general fund which is subsequently reversed out to the capital adjustment account under CIPFA accounting requirements.
		In addition, the loan covenants require Brick by Brick to provide audited accounts within 90 days of the financial year end. Audited accounts were provided 365 days after the year end and create a technical breach of the loan covenants meaning all loans are repayable on demand. In previous years the Council issued a waiver to cover this breach, however the waiver was not issued as at 31 March 2020. As a result all loans with Brick by Brick were repayable on demand and will now be disclosed as Short Term Debtors instead of the previous Long Term Debtors classification in the Accounts.
		In addition we consider the lack of monitoring of loan repayment dates and maintenance of signed loan agreements to be a control weakness. There is a risk of oversight and financial mismanagement where there is a lack of legally binding documents in respect of loans made to other organisations which could put the Council at risk of not being able to recover the loaned monies. This risk was earlier communicated through our Public Interest Report issued in October 2020.
		Please refer to Appendix A of this report for further details of control findings in relation to Brick by Brick Croydon Ltd.
		Since this audit finding was presented to management, the council have consolidated all outstanding loans to Brick by Brick Croydon into one loan agreement, totalling £141 million. The Council has built this into its revised MRP calculation which has resulted in an additional charge to the general fund (see page 31 for further details of MRP charge).

2. Significant findings – other issues

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

Issue	Commentary	Auditor view
Cash and Cash Equivalents During our testing of cash and cash equivalents we identified that no regular bank reconciliations had been undertaken by the Council. We also identified that LEP cash held by the council had not been separately disclosed within the statement of accounts as required by the CIPFA Code of Practice.	• As part of our audit we request the year end bank reconciliation. The 31 March 2020 bank reconciliation was provided by the Chief Accountant who left the Council in July 2020. During the audit it became clear that no year end bank reconciliation had been completed which is a serious control weakness. In following up the lack of year end bank reconciliation we identified that Internal Audit provided a draft report to the Executive Director of Resources in July 2020 setting out the absence of bank reconciliations. None of the recipients had responded to Internal Audit until we escalated the matter to the Chief Executive In February 2021. • We identified that the Council holds cash on behalf of the Local Enterprise Partnership (LEP). As this is not cash that is controlled by the council the council should not be recognising this cash as an asset in it's Balance Sheet.	For an organisation the size of the Council, monthly bank reconciliations should be prepared and formally reviewed. We would expect more regular reconciliations to be completed as part of routine financial management. Without a fundamental key control ensuring that the bank balance reconciles to the Council's own accounting records there is a risk that cash can be misappropriated or errors made that are not identified promptly. This is a serious control weaknesses and the Council should ensure that routine bank reconciliations are carried out throughout the financial year and formally reviewed by a senior finance officer. In addition, it is unacceptable that serious Internal Audit findings were not actioned between July 2020 and February 2021 when we escalated the matter. Internal Audit is an important part of the Council's governance process and the Council needs an appropriate mechanism to respond to Internal Audit promptly and effectively Please refer to Appendix A - **Recommendations 1 and 7**. of this report for further details of control findings in relation to Cash and Cash Equivalents. We identified that £39 million of the cash and bank overdrafts disclosed within the Council and Group accounts was LEP monies and therefore under CIPFA Code Guidance should not be accounted for by the Council. An adjustment has been made to remove the cash and bank overdraft LEP balance as well as a prior period adjustment as £39 million was also recorded in 2018/19. This has no impact on the net position of the balance sheet or council's general fund. We identified an unreconciled difference between the cash and bank overdraft balance of £3 million. This is below our materiality levels and therefore we have obtained sufficient and appropriate audit evidence that the cash and bank overdraft balances are not materially misstated.

2. Significant findings – key estimates and judgements

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

Assessment

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

2. Significant findings – key estimates and judgements

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

Assessment

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

2. Significant findings – key estimates and judgements

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

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

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

Assessment

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

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

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

● - Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. We considered whether the factors leading to the disclaimer opinion represented matters in relation to fraud. As stated earlier, the Council's consideration of the KROLL report and the wider reports on governance including the two Reports in the Public Interest led to the Council referring matters to the Police to consider whether there is a case to answer under the Misuse of Public Office. Our view is that the uncertainty relating to this matter reflects a material uncertainty over management override of control and we have not concluded that this represents fraud. We have identified significant issues relating to our value for money conclusion due to weaknesses in governance arrangements although our work has not identified any instances of fraud. Given the ongoing consideration of matters by the Police we do not intend to formally certify the 2019/20 audit until we have had an opportunity to consider the findings of the police investigations. We have not been made aware of any other incidents of fraud in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	As mentioned elsewhere within the Report, we identified issues over the disclosure of the development spend incurred in relation to Fairfield Halls, which was initially incorrectly recorded in the accounts of Brick by Brick Croydon Ltd, when this spend should have been recorded in the Council's Accounts given the asset never formally transferred to Brick by Brick. This has been amended in the updated Accounts and a disclosure has been added to the Accounts to explain clearly the changes which have taken place as a result of this adjustment. No other issues have been identified in respect of the related parties or related party transactions recorded within the Accounts.
Matters in relation to laws and regulations	As reported within the Report in the Public Interest, the Council had to issue a Section 114 Notice in November 2020 due to the identification of a £66 million budget shortfall in 2020-21. As a result of this, the Council has been granted a Capitalisation Direction by MHCLG, which will cover sums over the next four financial years. Our Value for Money Work in respect of the redevelopment of Fairfield Halls and the related transactions led to a Report in Public Interest in January 2022. The Council subsequently engaged a forensic expert, Kroll, and the resulting report has been referred by the Council to the Police to consider whether there is a case to answer under the Misuse of Public Office. We understand that the case is being considered and we intend to issue a modification to the audit report to reflect the matters arising.
Written representations	A letter of representation will be requested from the Council, including specific representations in respect of the Group and Prior Period Adjustments identified, which will be shared with Management and the Audit and Governance Committee once all of the remaining work has been completed.

2. Other matters for communication

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

Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.
Disclosures	Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. A number of these changes have arisen due to the impact of the two Reports in the Public Interest and ensuring this is correctly reflected in the 2019/20 financial statements where required. Further detail is provided within the Misclassifications and Disclosure Changes pages, which are included later in the Report.
Audit evidence and explanations/significant difficulties	This has been a challenging audit for both the finance and audit teams. The initial audit was prolonged to assist the finance team mange the competing pressures of a revised budget in response to the section 114 notice and the request for a Capitalisation Direction at the same time as responding to auditors. Given the length of time the audit has taken there has been significant turnover in key personnel at the Council during the audit period, including four section 151 officers. With significant turnover, corporate memory becomes difficult to retain and going forwards the Council needs to continue to invest in the finance team to help with consistency and resilience. A number of the issues identified in-year have required the new finance team to revisit figures and judgements which were made in previous years, for which there is a lack of corporate memory and hence items have often had to be revisited from scratch to agree a way forward. This has indicated that a more robust mechanism is needed to maintain records that can be easily followed by successors where there is a change in the finance team. We have raised a recommendation in Appendix A - **Recommendation 8** to ensure appropriate succession planning is in place for the finance team. Despite the challenges and the length of time, we acknowledge the cooperation and engagement of the finance team.

2. Other responsibilities under the Code

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

3. Value for Money

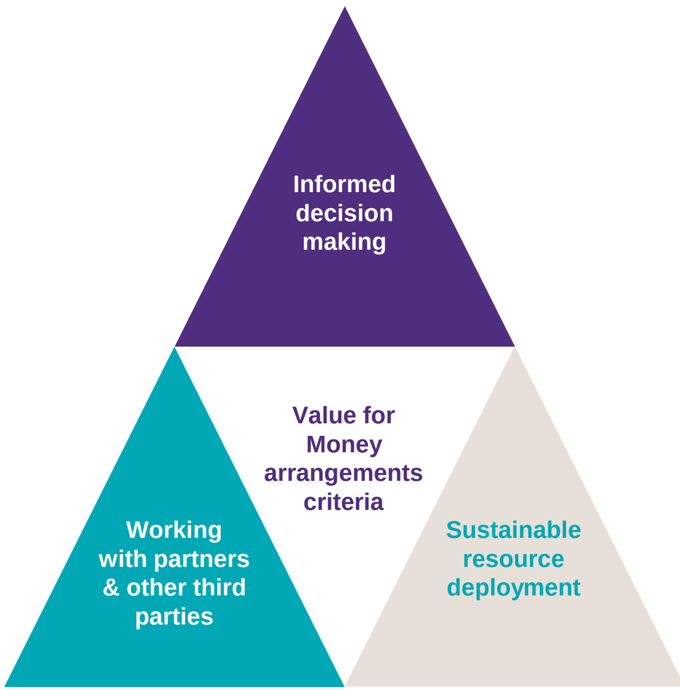
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

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

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

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



Risk assessment

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

- The ongoing Financial Sustainability of the Council

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

- Governance of the Council's Alternative Delivery Models

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

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

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

- Governance and Financing of the Council's Group Structures

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

- Refurbishment of Fairfield Halls

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

- The condition of the Council's Housing Stock

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

3. Value for Money (continued)

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

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

Proposed Conclusion

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

4. Other statutory powers and duties

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

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

5. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

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

	Fees £	Threats identified	Safeguards
Audit related			
CFO Insights subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £697,352 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Subscription to the Adult Social Care Index	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £697,352 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Action plan

We have identified 13 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the following years audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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

Controls

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

Action plan

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

Controls

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

Action plan

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

Controls

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

Action plan

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

Controls

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

Action plan

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

Controls

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

Action plan

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

Controls

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

Action plan

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

Controls

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

Action plan

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

Controls

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

Action plan – IT Audit (Oracle System)

We have also identified six recommendations for the group as a result of issues identified from the work performed by our IT Audit Team during the 2019-20 Accounts Audit – these issues and Management's responses were reported to you in January 2021 but we have included again here for completeness. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the following years audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and recommendation	Management Response
● Medium	**Segregation of duties conflicts between Oracle system administration, developer, and finance roles** We recommend management consider reviewing the elevated access assignment and, where possible, restricting Oracle administrator access to members of the IT department only with all conflicting finance responsibilities being removed from System administrator accounts. Should management choose to accept the risks associated with the system administrators and finance conflicts, formalised and documented controls should be implemented to monitor the use of system administrator access. This monitoring should be achieved through after-the-fact reports listing management approval for the actions (e.g., transactions posted, queries executed, records updated) performed. Given the criticality of data accessible through financially critical systems, logs of information security events (i.e., login activity, unauthorized access attempts, access provisioning activity) created by these systems should be proactively and formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	We have reviewed the information provided by the auditor. We found that all the users listed are either system accounts or members of the support and implementation team. We have ended the implementation user accounts. Given the nature of these roles the identified conflicts will exist. We will investigate options to implement appropriate formalised and documented controls to monitor system administrator and support team access. We will present a paper for the My Resources Board to review and consider options, as part of the agenda item on risks, at their meeting in November 2020.

Controls

● - Red - High – Significant effect on control system

● - Amber - Medium – Effect on control system

● - Green - Low – Best practice

Action plan – IT Audit (Oracle System)

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

Controls

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

Action plan – IT Audit (Oracle System)

Assessment	Issue and recommendation	Management Response
Medium	**Weakness in password configurations** We recommend that Password complexity is increased. Password history should be enforced for at least 10 previous passwords. Users should be locked out after a maximum of 5 failed logon attempts. We recommend that the passwords on Generic accounts be changed following each use.	We will seek support from our 3rd Party support provider to understand what options are available. We will provide an update on the options available for the My Resources Board to consider, as part of the agenda item on risks, at their meeting in November.
Medium	**There is an excessive number of Admins on the Oracle Cloud system and no evidence was provided to identify them** Management should formally review the system administrators access to the network and restrict this access only to appropriate users. Apply a least privilege basis to all users to ensure users have appropriate access and any additional access required is documented and approved.	A formal review was started in 03/2020, We look at 235 domain admin users, 626 Server admins users. The results of this review prompted the Littlefish 'AD Health Check' of which, there is a full remediation proposal awaiting to be approved. In addition, we have recently extended to our review to 172 admin accounts in O365/Azure. Lastly, a 'Privileged Group Access Standard' was created to minimise the amount of privileges accounts we have and define an approval process.
Medium	**IT Security policy changes are not communicated to all employees** Management should review the IT security policies at least annually and make appropriate changes considering technological changes, data protection regulations as well as changes to the IT environment and current business needs.	We had a recent policy review in 05/2020 of which there are some outstanding actions we need to address. Once the policies have been updated, we will incorporate the distribution alongside a wider IM & Security training & awareness package.
Medium	**Logs in Active Directory are not being kept and monitored** Logs of information security events (i.e., login activity, unauthorized access attempts, access provisioning activity) created by these systems should be proactively and formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	Work has been commissioned from our supplier to enable audit logging (work request 116) and it should be implemented soon. Review of the logs will be performed by the Council's Digital Security Officer.

Controls

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

Action plan – IT Audit (Northgate System)

Assessment	Issue and recommendation	Management Response
● Medium	**No Monitoring of Third-Party Activities undertaken on Northgate i-World** Management should implement controls around how the vendor gains access to the production environment. This can be achieved by enabling and disabling access when it is required by the vendor to apply approved change into the production system. Management should also consider reviewing the user activities of the account used by the vendor. This will assist in ensuring that there is appropriate oversight into how the vendor accesses the i-World production environment.	LBC will implement a process with vendors whereby access is granted for a limited time and monitored during the access period. Once changes have been agreed or approved with or by LBC vendors will have access to the system as required within the scope of the change for a duration appropriate to complete their activity. During the period of access and immediately after the vendor's activity and changes will be reviewed and signed off against the scope of the change by a system administrator within LBC. This will be implemented by 14 August 2021, all vendor accounts will be locked by this date.
● Medium	**Sharing of Administrative Account on Northgate i-World** Management should use named administrator accounts within IT systems in order to establish accountability. The use of individually named administrator accounts allows for the tracking of administrator activities within the system. Generic accounts should also be removed/disabled from the system.	LBC will only use named accounts for administrative tasks, or accounts which have a sole responsible party attached to them. BATCHJOB will be discontinued and administrators will use their own accounts for system changes or batch work. When an administrator moves on from their role if there is a requirement to maintain the account to ensure batch work can continue their account will be signed over to a senior officer within the ICT support team who will own the account until all dependencies are expired, the account will then be processed as a leaver. This will be documented to provide an audit trail. BATCHJOB will be discontinued by 14 August 2020. The RB user account is an "out the box" admin account that only certain jobs can be run from, this must remain a shared account however LBC will implement a process whereby access to the account is requested and approved/not approved by the ICT manager for individual officers for agreed periods of time/activities. This will be documented to provide an audit trail. RB ownership will change from 1 October 2020. There is work to be done to remove integrations off the RB user before restricting the access.

Controls

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

Action plan – IT Audit (Northgate System)

Assessment	Issue and recommendation	Management Response
Medium	**Weak Password Parameters** Management should consider setting password settings in line with good practice.	All user accounts will join the STANDARD password profile which either currently meets or will meet the requirements above and in line with LBC password policy. All system integration accounts will join a new password profile which is clearly defined in the system. In addition there will be no accounts using the FIRST_DEFAULT profile. LBC will have decommissioned the FIRST_DEFAULT profile and updated user password profiles by 31 August 2020.
Medium	**Lack of Periodic User Access Review** Management should ensure that formal review of user access rights is performed periodically by the system and/or business owner of the application. Once reviewed, IT should configure the appropriate permissions to ensure users have access rights appropriate for their job role. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).	LBC will implement a process for user reviews. This has already begun, and will be done in stages in the first instance and then put in to a schedule, with a regular review once per quarter. As part of the regular review, of all roles we will ensure that a segregation of duties is correctly applied and that anyone who has not used their account within an agreed timeframe is processed as a leaver. All users will be asked to reconfirm the reason for access to the system. This will be reviewed and in line with the response and guidance. Access will be modified or revoked as needed. Failure to respond will also result in an account being revoked. Reviewing all current users will be completed by 31 August 2020. The process will be then in place for the first quarterly reviews to be scheduled, and commence by 30 September 2020.
Medium	**Lack of Review of Information Security/Audit Logs** Given the criticality of data accessible through i-World, logs of information security events (i.e., login activity, unauthorized access attempts, privileged user activity) created by these systems should be formally reviewed for the purpose of detecting inappropriate or anomalous activity. We recommend that these reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	Following user review in point 4 we will conduct robust reviews to ensure that only current users have access to the system and that users have the correct roles and privileges based on their requirements and the matching access they have been provided. This will prevent unauthorised access. It is not possible for someone to gain access to Northgate if they have locked their account once exceeding the number of login attempts. They will need to raise a call with the administrators to unlock their account, at that point validation takes place to make sure the person asking for their account to be unlocked is actually the account holder. We will review security event logs to detect any anomalous activity with regard to repeated or invalid login attempts. We will implement a time of access review that highlights any users accessing the system outside of the designated hours for updating. These reports will be reviewed by the administrators and offending officer's supervisors will be made aware of their activities. This will be in place by 30 September 2020.

Controls

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

Action plan – IT Audit (Northgate System)

Assessment	Issue and recommendation	Management Response
● Medium	**Reconciliation Report Not Formally Approved** Management should consider implementing a process in place that ensure that reconciliation is performed and validated by the appropriated person.	LBC will change the reconciliation process so that if the system is reconciled an administrator will note they have reconciled the system on the reconciliation sheet which will be checked weekly by a second officer/manager. If the system does not reconcile the officer must address any issues and correct the system as needed. This must be reported to another officer who will perform a second check on the day and confirm that appropriate action has taken place to bring the system in to balance and checked by a second officer and escalated to the manager for sign off. This process will be in place by 14 August 2020.

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 2018/19 financial statements, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note one recommendation is still to be completed.

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

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Incorrect Data shared with the Valuer** In the prior year we identified some issues with the integrity of the data passed to the Valuer ahead of the revaluation exercise, which could have potentially resulted in errors in the valuations performed by the Valuer. We highlighted the need for the Council to ensure the integrity of the data based to the Valuer ahead of the annual revaluation exercise. During our work on the Council's valuations in 2018-19, we identified one property included in the valuation schedule which had been disposed by the Council in previous years and thus shouldn't have been revalued. We also identified a second property where the whole property was valued but the Council only owns a percentage of this property, and thus the whole value should not have been included in the accounts.	Similar issues have been found in 2019/20, where updated information was not always made available to the valuer in a timely manner. We performed a completeness check of data sent to the valuer which identified some floor areas did not agree back to data used by the valuer and some properties held on an EUV and FV basis did not tie back to lease agreements and tenancy schedules held by the Council. We extrapolated the errors identified and concluded an extrapolated error of £1.4 million of potential understatement of valuation of assets based on discrepancies in data being supplied to the valuer. Thus we will roll forward the recommendation forward to the current year to reflect there is more for the Council to do in this space to resolve this issue.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations IT

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Users self-assigning responsibilities in Oracle EBS** The risk of fraud or error is increased if users are able to promote their access privileges beyond those that they require to perform their roles, or they have been appropriately trained to use.	This finding is still present in the upgraded system Oracle Fusion.
✓	**Default Oracle EBS and Oracle database accounts credentials have not been changed** Default accounts present a security risk as the usernames and passwords are widely available. They therefore present an easy point of compromise for a malicious user who could use such an account to create new user accounts and assign unauthorised privileges to them. These accounts could then be used to perform unauthorised and unaccountable changes or transactions, which may be fraudulent.	This no longer applies as new system has been implemented.
X	**Audit logging is not configured in line with best practices** Inappropriate or unauthorised activity within a high-risk area of the application and database is not detected in a timely fashion. A user could disguise fraudulent activity by making a change, waiting for the change to be processed and then changing the altered record back to its original state, the only record of change will be the most recent one.	This finding is still present as event logs are not held and monitored.
X	**Generic accounts inadequately controlled in Oracle EBS** Generic accounts present a risk of a user using them to make unaccountable changes or transactions within the system, potentially enabling fraudulent activity to be committed and/or disguised. This risk is increased when these accounts have elevated privileges such as the 'System Administrator' responsibility assigned.	This finding is still present in the upgraded system Oracle Fusion.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations IT

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Users with 'processes tab' functionality** Users are able to have unsegregated access to whole processes that system administrators and management are not aware of. There is a risk of users being able to perform end-to-end transactions that could be used to commit fraudulent activity. The risk of such changes not being detected is increased by the absence of effective audit logging.	This no longer applies as new system has been implemented.
✓	**Forms that allow SQL code to be executed** A large number of users having access to execute SQL code presents the risk of unauthorised access or modification of confidential or sensitive data erroneously or for fraudulent purposes.	This no longer applies as new system has been implemented.
✓	**Oracle EBS end user accounts with password that do not expire** User accounts with passwords that do not expire increase the risk of a user account being accessed by unauthorised person(s), thereby increasing the risk of inappropriate use/unauthorised modification of application data or transactions.	This no longer applies as new system has been implemented.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

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

Audit adjustments

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
Review of Allowance for Credit Loss for Short Term Debtors From the work performed to date, we have identified issues relating to the Allowance for Credit Losses included within the draft Accounts. Firstly our review of the element of this Allowance relating to Housing Benefit Debtors identified that the calculation initially performed by the Council was incorrect, leading to an understatement of this element by **£1.5 million**. Secondly, during the course of the audit, the Council identified a considerable balance relating to outstanding Schools Utility Charges which were several years old and hence an allowance should have been made against these items. It was identified that the additional allowance required for these charges was **£4.5 million**. Further investigation also identified that the calculation of the outstanding Schools Utility Charges had omitted **£3.1 million** of invoices which were raised in 2019-20 but relates to costs incurred over previous years, some items going as far back as 2012. As these items were not accrued for in previous years, it means the closing Receivables balance at 31 March 2019 was understated by this balance, which is likely to mean that the provision made of **£4.5 million** could be understated based on the age profile of this debt. As a result of issues identified in relation to understatement of receivable credit loss allowance, management performed a review of credit loss allowance of receivables through an opening the books exercise which identified a **£25 million understatement** of credit loss allowance. An overall audit adjustment of £25 million has been charged against the Council's General Fund Balance, in line with the standard accounting for these items, and thus have generated a reduction in the General Fund balance of **£25 million** from that reported in the draft Financial Statements.	Dr General Fund Expenditure £25,162	Cr Receivables £25,162	Increases by £25,162
Recharges to the Housing Revenue Account As a result of issues identified during the external audit, management performed an 'Opening the Books' exercise which identified a review of recharges made to the Housing Revenue Account. This review identified that the original recharge made to the Housing Revenue Account was too high and therefore £7.12 million is required to be recharged back to the General Fund resulting in a **£7.12 million** decrease to the general fund position.	Dr General Fund Expenditure £7,120	CR HRA Reserve £7,120	Increases by £7,120
Overall impact (of just the issues on this page)	**£32,282**	**£32,282**	**Increases by £32,282**

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

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

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Incorrect inclusion of Cash held on behalf of the Local Enterprise Partnership Our work on the Council's Cash Balance in year identified that in 2018-19, the Council had incorrectly recorded the cash held on behalf of the Local Enterprise Partnership (LEP), Coast to Capital, as an asset and liability within the Council's Statement of Financial Position, when this should have been excluded as it was just being held on behalf of the LEP as the Council was the Accountable Body for a three-year period, which ended in April 2020. Thus a current year and prior period adjustment was required to amend this item, which had no impact on the overall financial standing of the Council but reduced Current Assets and Current Liabilities by the same balance.	n/a – no impact on the CIES	Dr Cash Overdraft £39,341 Cr Cash £39,341	n/a – no impact on total net expenditure – this is purely a reduction of assets and liabilities on the Statement of Financial Position.
Incorrect adjustment for the Dedicated Schools Grant Deficit Position The original 2018/19 Statement of Accounts included a £9.193m Deficit (2017/18 £0.963m) in Dedicated Schools Grant (DSG) as a Receipt in Advance on the balance sheet, on the basis it was an unadjusted non-material error. However, the 2018/19 Balance Sheet has now been restated to reflect a change in the accounting treatment of the of Dedicated Schools Grant Deficit. On the 30 January 2020 the Secretary of State for Education laid before Parliament the School and Early Years Finance (England) Regulations 2020. These regulations came into force on 21 February 2020 and are applicable to local authority accounting periods beginning on 1 April 2020. CIPFA released its Bulletin no.5 'Closure of the 2019/20 Financial Statements' in April 2020 in which it clarified how a DSG deficit should be treated. The new regulations are considered to provide a statutory basis for the holding and disclosing of negative earmarked reserves solely relating to the retained deficits arising from accumulated DSG expenditure. Therefore the 2017/18 and 2018/19 DSG Deficit has been reclassified and included as a negative earmarked reserve.	**2019/20 Impact:** no impact as held as a negative reserve **2018:19 Impact:** prior period adjustment reflected DR Income £9,193 MIRS Impact: Cr General Fund Expenditure £9,193 Dr Earmarked Reserve £9,193	**2019/20 Impact**: no impact as held as a negative reserve **2018:19 Impact:** prior period adjustment reflected Cr Receivables £9,193	n/a – no impact on total net expenditure – this is a presentational change on the face of the Statement of Financial Position and Movement in Reserves Statement.
Overall impact (of just the issues on this page)	**Nil impact**	**Nil impact**	**n/a – no impact**

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Minimum Revenue Provision Based on our review of the revised minimum revenue provision policy, we concluded that the changes made did not provide a prudent charge of MRP as required by the statutory guidance. We did not agree with management's view that MRP should not be charged on investment properties, nor did we agree with management's view not to charge MRP on the loans issued to Brick by Brick Croydon Ltd. The Council is of the view that as they were planning to receive interest back from Brick by Brick, which was going to fund the repayment of the debt initially taken out by the Council, no MRP charge was required. Based on our audit findings management re-reviewed the MRP charge and have now included £141million of Brick by Brick loans into its MRP calculation. This has resulted in management recognising a further **£6.7 million for 2019/20** required to increase the MRP charge. This adjustment has been reflected in the revised 2019/20 accounts and reduced the General Fund and Earmarked Reserves position.	Dr General Fund Expenditure £3,544 Dr Earmarked Reserves £3,164	Cr Capital Adjustment Account £6,708	Increases by £6,708
Costs for Legal Case The Council entered into a Highways Maintenance contract with a third party beginning September 2011 which ran for 7 years. At the end of the contract term the Council received a claim disputing there was unpaid works which fell within the scope of the contract. The Council did not originally provide for the legal case and subsequently a **£9.439 million** adjustment has been made to the accounts**.** This is an adjusting post balance sheet event and therefore the financial statements have been adjusted to reflect a provision and corresponding expenditure charge to the general fund.	Dr General Fund Expenditure £9,439	Cr Provisions £9,439	Increases by £9,439
Overall impact (of just the issues on this page)	**£16,147**	**£16,147**	**Increases by £16,147**

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Transformation Expenditure From our testing of items classified as Transformational Expenditure by the Council we identified • 5 items which did not meet the requirements to be treated in this manner, generating an actual error of **£258k**. This generated an extrapolated error of **£7.449 million**. Where we undertake sample testing we extrapolate the error across the whole population. Due to audit findings in this area and as a result of management performing an opening the books exercise as well as work performed over the Croydon Affordable Housing transactions, it was concluded that all of the transformation expenditure capitalised since 2017/18 was not eligible capital expenditure. The total of transformation expenditure funded by flexible capital receipts removed due to the removal of Croydon Affordable Housing and Croydon Affordable Tenures capital receipts is **£73 million**. A current year audit adjustment and prior period adjustment has been included in the revised accounts resulting in a reduction in the General Fund position for 2019/20.	Nil impact as expenditure was already included in the General Fund	**2019/20 Impact:** Dr Capitalisation £29,268 CR Capital Receipts £29,268 **2018/19 Impact:** Dr Capitalisation £29,307 Cr Capital Receipts £29,307 **2017/18 Impact:** Dr Capitalisation £14,503 Cr Capital Receipts £14,503	Nil impact
Revenues - Schools Utility Provision During the course of the audit, we identified the Council was carrying a considerable balance of old Schools Utility balances as Debtors which the council anticipated it is unlikely to receive. As a result the receivables should be impaired and therefore an adjustment has been made to the accounts to recognise the risk of non-collection, which amounts to a value of **£4.56 million** against debt of **£6.17 million**.	Dr Expenditure £4,597	Cr Receivables (Bad Debt Provision) £4,597	Increases expenditure by £4,597
Overall impact (of just the issues on this page)	**£4,597**	**£4,597**	**Increases by £4,597**

Audit adjustments

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Croydon Affordable Homes As mentioned earlier within the Report, following the work on Croydon Affordable Homes and the reversal of the original accounting treatment, the Council had to reverse all of the transactions relating to CAH over the past three years. In brief this meant the Council had to reverse the disposals to CAH, and then incurred additional Depreciation on these Assets. These entries have been set out separately here to aid review and understanding.	**1) Reversal of Disposals to CAH** Dr MIRS £25,035 Cr Loss on Disposals £25,527 **2) Reinstatement of Depreciation** Dr Depreciation Expense £2,689	Dr PPE Assets £25,527 Cr Capital Adjustment Account £24,535 Cr Revaluation Reserve £501 Cr PPE Assets £2,196 Cr Revaluation Reserve £493	Reduces by £25,035 Increase by £2,689
Credit Loss Impairment of Receivables An assessment was performed by management which identified no impairment was needed for 2019/20 but would have an impact on the position in 2020/21. Our view is that not all of the loans were recoverable by the Council at 31 March 2020 and therefore an adjusting post balance sheet event has occurred that requires adjustment to the 2019/20 financial statements. Management's revised assessment has concluded that as at 31 March 2020 a lifetime credit risk impairment of **£51.696 million** is required to loans made to subsidiary Brick by Brick as a result of expected anticipated sales proceeds not being sufficient to clear the outstanding debt as at 31 March 2020. This has resulted in a charge to the general fund which is subsequently reversed out to the capital adjustment account under CIPFA accounting requirements.	Dr Expenditure £51,696 MIRS Adjustment: Dr General Fund £51,696 Cr Capital Adjustment Account £51,696	Cr Short Term Receivables £51,696	Nil impact as reverses out to capital adjustment account
Overall impact (of just the issues on this page)	**Cr £22,838**	**Dr £22,838**	**Reduces by £22,838**
Overall Impact on Financial Statements	**Dr Deficit on Provision of Services £129,337** **Dr Other Comprehensive Income £51,626** **Dr MIRS £25,035** **Total Impact - Dr £205,998**	**Cr Net Assets £166,642** **Cr Reserves £39,357** **Total Impact - Cr £205,999**	**Total Impact – increases CIES by £205,999**

Audit adjustments

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

Misclassification and disclosure changes

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

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

Audit adjustments

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

Misclassification and disclosure changes

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

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Note 43 – Prior Period Adjustments	Inconsistency between the CIES Balance in the Note and the main Statement.	An update has been made to Note 43 to ensure that the CIES balance shown as part of the disclosure relating to the Prior Period Adjustment for the restatement of the Dedicated Schools Grant is consistent with the main CIES at the start of the Accounts.	✓
Note 43 – Prior Period Adjustments	Various additional disclosures relating to the Fairfield Halls Restatement and Croydon Affordable Housing LLP arrangement	Note 43 has been updated to reflect the prior period adjustments required due to the restatement of the expenditure incurred as part of the redevelopment of Fairfield Halls, which has required a restatement of the 2018-19 balances which is considered within this Note. Note 43 has also been updated to reflect the prior period adjustments required due to the restatement of accounting for the Croydon Affordable Housing LLP and Croydon Affordable Tenures LLP transactions.	✓
Note 43 – Prior Period Adjustments	Disclosures relating to the disclosure of the Cash held by the Council on behalf of the Coast to Capital Local Enterprise Partnership	Our work during the course of the year identified that the Council had been showing the cash held with the Coast to Capital Local Enterprise Partnership as both an asset and liability in the Accounts, when it should have been removed from both sides as it is not the Council's Cash. As this issue was present in 2018-19 as well this has required a prior period adjustment to correct the 2018-19 figures as well.	✓
Note 30 - Capital Expenditure and Financing	Omission of PFI capital expenditure and understatement of development loans	Note 33 Capital Expenditure and Financing note has been updated and a prior period adjustment included as PFI capital expenditure had not been included within the CFR disclosure. Property development loans provided to subsidiary Brick by Brick had not been included within the 2018/19 comparator and therefore required restatement. A number of other updates have been included to reflect the capitalisation direction from government as well as audit adjustments impacted by Croydon Affordable Housing LLP arrangement and expenditure incurred by the council for Fairfield Halls project.	✓
Group Accounts	Omission of notes relating to group accounts.	There are a number of transactions and balances within the group accounts that are significant different to the single entity accounts which require accompanying notes. Management has agreed to update the group accounts to include notes where there are material differences in the group transactions and balances from the single entity accounts.	✓

Audit adjustments

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

Misclassification and disclosure changes

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

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Audit Fees	Changes in audit fee.	Changes have been made to the Audit Fees disclosed for both 2018-19 and 2019-20 to reflect the additional costs of the audit work undertaken in the past two audits.	✓
Collection Fund	Incorrect council tax rates disclosed.	The council tax rates used for the Council tax base had not been updated for 2019/20 and was still showing the 18/19 rates, which have been updated in the revised accounts.	✓
Note 34 - Leases	Update to disclosure as a result of Croydon Affordable Housing and Croydon AffordableTenures LLP audit adjustment.	The lease disclosure note has been revised as a result of the audit adjustments identified in relation to Croydon Affordable Housing and Croydon Affordable Tenures LLP arrangement.	✓
CIES	Classification issue relating to investment property income.	We have identified that rental income from investment properties was being coded against individual services, thus it was sitting above the line in the CIES. This should have sat within financing and investment income and expenditure (below the line). Management has agreed to update the accounts for classification error of **£6.5million**.	✓
NNDR Income	Classification issue relating to NNDR income.	NNDR top up grant worth £24 million has been disclosed above the line in the CIES. NNDR income is non-service specific and therefore has now been updated to be disclosed within taxation and grant income financial statement line within the CIES.	✓
Financial Instruments	Omission of Market Debt from financial instruments note.	Management had omitted disclosure of £267 million of market debt from the financial instruments disclosure note, this has been updated within the final financial statements.	✓
Cashflow Statement (Group and Single Entity)	Audit adjustments identified have impacted on the disclosure of cashflow statement.	The single entity and group cashflow statement has been updated to reflect audit adjustments identified throughout the financial statements.	✓
Note 4 - Assumptions made about the future and other major sources of estimation uncertainty	Material valuation uncertainty disclosure.	Disclosure has been updated to reflect material valuation uncertainty over land and buildings valuations, investment property valuations and pension fund liability valuation.	✓

Audit adjustments

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

Misclassification and disclosure changes

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

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Assets Under Construction (AUC)	Classification issue relating to capital additions being wrongly classified as operational land and building costs.	We have confirmed with management that £18.6million of capital additions in relation to Addington Leisure Centre were incorrectly classified as other land and buildings when these should have been capitalised under AUC and then the Net Book Value (NBV) transferred across on completion of project in 2019/20. There is no impact on NBV as asset was transferred to AUC in 2019/20 and revalued as part of the revaluation programme, therefore all this required was a classification adjustment within the PPE note in relation to capital additions for 2019/20 for New Addington Leisure Centre.	✓
Infrastructure Assets	PPE Note revised to remove gross cost and accumulated depreciation for infrastructure assets.	In 2022, accounting for infrastructure assets was raised as a sector wide accounting issue. Infrastructure assets includes roads, highways, streetlighting and bridge assets. Each year the Council spends a material amount on Infrastructure capital additions. As at 31 March 2020, the net book value of infrastructure assets was £154 million. In accordance with the Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. In accordance with the temporary relief offered by the update to the Code on infrastructure assets the PPE note has been updated which does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficits mean that this would not accurately represent the asset position to the users of the financial statements. The authority has chosen to apply the temporary relief offered by the update to the Code of Audit Practice on Infrastructure Assets, which has been reflected in the updated Accounts.	✓
Minor Disclosure Issues	Various Notes	A number of other minor disclosure amendments have been processed in the areas mentioned. None of these are individually significant enough to warrant separate disclosure.	✓

Audit adjustments

Impact of unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Cash and Cash Equivalents As part of our audit testing in this area we reperformed the bank reconciliation between direct confirmations received from bank accounts held by the Council and the balance included within the general ledger. This resulted in an unreconciled difference of £2.8 million (understatement of bank overdraft).	Dr Expenditure £2,866	Cr Cash and Cash Equivalents £2,866	Dr Expenditure £2,866	Non-material error.
Collection Fund We performed a reconciliation between the general ledger (GL) and Northgate subsystem (Council Tax System). During our reconciliation exercise we identified that GL was understated by £1,160k. Northgate Reports are considered source reports and therefore considered to have the correct values and therefore any difference from Northgate has been considered a reconciling misstatement. This results in an understatement of £1,160k of council tax income.	Cr Council Tax Income £1,160	Dr Cash £1,160	Cr Council Tax Income £1,160	Non-material error
Overall impact (on this page only)	**DR £1,706**	**CR £1,706**	**DR £1,706**	

Audit adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Data provided to managements external valuer We identified issues with the data passed from the Council to the Valuer, similar issues have been found in 2019/20, where updated information was not always made available to the valuer in a timely manner. We performed a completeness check of data sent to the valuer which identified some floor areas did not agree back to data used by the valuer and some properties held on an EUV and FV basis did not tie back to lease agreements and tenancy schedules held by the council. We extrapolated the errors identified and concluded an extrapolated error of £1.4 million. of potentially understatement of valuation of assets based on discrepancies in data being supplied to the valuer.	Cr Other Comprehensive Income - Surplus on revaluation of non-current assets £1,446	Dr Property, Plant and Equipment £1,446	Cr Other Comprehensive Income- Surplus on revaluation of non-current assets £1,446	Non-material extrapolated error.
PPE Additions We identified that one sample item was incorrectly classified as capital expenditure when it should have been classified as revenue expenditure. Management were unable to confirm why this item had been capitalised and therefore we were unable to isolate this issue. We undertook additional audit testing to understand whether this was a material or pervasive issue. Based on additional testing we are satisfied that the issue identified is not material and concluded on an extrapolated misstatement of £2.898 million.	Dr Expenditure £2,898	Cr Property, Plant and Equipment £2,898	Dr Expenditure £2,898	Non-material extrapolated error.
Overall impact (on this page only)	**Dr £1,452**	**Cr £1,452**	**Dr £1,452**	

Audit adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Long Term Debtors We identified errors within our sample testing of long term debtors which included a £2.199 million difference between the Brick by Brick loan schedule and the records of Croydon Council. We also identified an isolated error of £719k of historical loans which are deemed non recoverable. A further error was identified relating to investments in associates that had been classified as loans and unlikely to be recoverable, this was concluded as an isolated issue totalling £1.25 million. Total errors identified that have not been corrected by management amount to **£4.168 million**.	Dr Expenditure £4,168	Cr Long Term Debtors £4,168	Dr Expenditure £4,168	Non material error.
Operating Expenditure We identified five sample items which failed the test for occurrence and accuracy. The actual value of fails was £1,016.27. The fails identified could not be isolated and therefore we extrapolated this over the population tested which resulted in an extrapolated error of £1.104 million.	Cr Expenditure £1,104	Dr Creditors £1,104	Cr Expenditure £1,104	Non-material extrapolated error.
Operating Expenditure – School Grant Expenditure had been overstated by £12,069 as school grant owed to school in 18/19 was only paid to them in 19/20. No accrual was made and the expenditure only hit the GL in 19/20. Given the specific nature of this expenditure (PE grant), we cannot extrapolate as this does not represent how expenditure is generally treated at Croydon. Therefore, we have isolated this to the cost centre to which all such grants are coded to. Given the client cannot prove which PE grant has been treated correctly and which has not, we can only assume they have all been treated in the same way. Therefore, extent of the error is £711k. Note this is a timing issue as expenditure was still incurred by the council.	Cr Expenditure £711	Dr Opening General Fund Reserve £711	Cr Expenditure £711	Non-material error.
Overall impact (on this page only)	**Cr £2,353**	**Dr £2,353**	**Cr £2,353**	

Audit adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Operating Expenditure We identified a sample item where PFI costs had been over receipted in error. This resulted in a higher expenditure cost of £737,612 than was actually occurred by the council. This was later corrected by the council in 2020/21 however remained an error in the 2019/20 financial statements.	Cr Expenditure £738	Dr Creditors £738	Cr Expenditure £738	Non material error.
Revenue - Fees and Charges We have identified various invoices relating to school utilities that have been raised in 19/20 but which relate to services that occurred in prior years at a total of £3.1mil. We have not been able to prove that this amount had been accrued for correctly in the relevant years. In the absence of such evidence, we have to assume that no such accrual took place. This results in the prior year CIES being understated and the 19/20 revenue in the CIES being overstated by the same amount - this however have no impact on the General Fund balance at the 19/20 year end and is a timing issue only.	Dr Revenue £3,100	Cr Opening General Fund £3,100	Dr Revenue £3,100	Non material error.
Overall impact (on this page only)	**Dr £2,362**	**Cr £2,362**	**Dr £2,362**	
Overall Impact on Financial Statements	**Dr Deficit on Provision of Services £9,319** **Cr Other Comprehensive Income £1,446**	**Cr Net Assets £5,484** **Cr Reserves £2,389**	**Dr Deficit on Provision of Services £7,873**	**Non-material impact on financial statements.**

Audit adjustments

Impact of prior year unadjusted misstatements

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

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

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit – Scale Fee	£133,102	£188,602
Council Audit – Additional Fees (agreed to date)	n/a	£203,000
Council Audit – Additional Fees (yet to be agreed)	n/a	£100,000*
Work on 1st Report in the Public Interest	n/a	£65,000
Work on 2nd Report in the Public Interest	n/a	£140,750
Total audit fees (excluding VAT)	**£133,102**	**Proposed £697,352**

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

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

Grant Thornton

grantthornton.co.uk