

# The Audit Findings Report for Croydon Council

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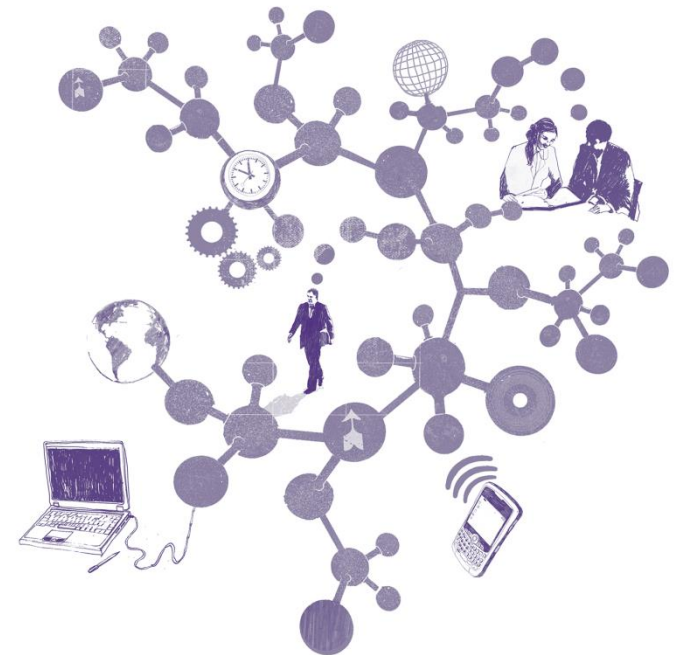
**Year ended 31 March 2014**

August 2014

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	3
2. Audit findings	7
3. Value for Money	19
4. Fees, non audit services and independence	22
5. Communication of audit matters	24
<b>Appendices</b>	
A Action plan	27
B Audit opinion	28

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

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

**03. Value for Money**

**04. Fees, non audit services and independence**

**05. Communication of audit matters**

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit to date of Croydon Council's financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, your financial statements present a true and fair view of the financial position, your expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

## Introduction

We communicated our planned audit approach to you in our Audit Plan dated 25 June 2014. We subsequently made one alteration to our planned approach, in respect of the implementation of your Technology Forge asset register database, which occurred in 2013/14. We amended our audit approach to undertake additional work to gain assurance over the accuracy and completeness of the implementation and the data transfer.

Our audit is nearing completion. As at the date of writing this report we are finalising our procedures in the following areas. This is because our audit identified an increase in the number and complexity of errors and misstatements in the accounts submitted for audit that required resolution. In addition, there was a deterioration in the quality and timeliness of working papers submitted for audit and delays in the provision of comprehensive responses to audit queries and samples selected for testing. These factors were compounded by a high turnover of finance staff in 2013/14, and by the finance team also having to deal with the implementation of a new general ledger at the same time as the audit was taking

place. This has resulted in additional audit work. We will report an update on progress in these areas to the audit committee at the meeting in September.

*Procedures nearing completion, subject to provision of evidence or where evidence only provided as at date of writing the report:*

- receipt and review of supporting documentation for reconciling items on General Account, and completion of our audit procedures in these areas;
- receipt and review of direct bank confirmations;
- receipt and review of evidence to complete testing on:
  - journals;
  - operating expenses and creditors, including unrecorded liabilities, accrued liabilities and cost of services;
  - exit cost testing and pension disclosures within employee remuneration;
  - provisions;
  - PFI;
  - fixed assets rolling revaluation
  - HRA services and charges;
  - Collection Fund including council tax support discount and single person discount; council tax debtors, review of the reconciliation of NDR3 to the general ledger, cut-off testing and final review of appeals provision;
  - grant revenues;
  - financial instruments; and
  - equity;
- agreement of cash flow statement to amended accounts;
- receipt and review of supporting evidence for contingent liabilities, including solicitors letters;
- receipt and review of audited Croydon Care Solutions accounts
- receipt and review of sufficient appropriate audit evidence directly from the auditors of CCURV LLP, as well as the audited CCURV LLP accounts from 31 December 2013;

*Procedures to be performed as part of audit closing procedures once above matters resolved*

- receipt and review of your final, amended version of the financial statements and confirmation that all agreed amendments have been processed;
- obtaining and reviewing the final management letter of representation. This will need to make reference to any unadjusted misstatements and the reason for not adjusting in the current period;
- receipt and review of the final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion;
- final senior management and quality reviews; and
- completion and submission of our audit of your Whole of Government Accounts return.

## **Key issues arising from our audit**

### **Financial statements opinion**

Subject to the satisfactory resolution and completion of the above matters, we anticipate providing an unqualified opinion on the financial statements.

The draft financial statements recorded net expenditure of £72,055k. We have identified two adjustments from the work that we have completed to date which affects your reported financial position. A £4.7m loan previously provided by the Council, but which had been repaid in year, had not been removed from the Council's long term debtors. You had also not accrued for £2.2m of loan interest expense for the period 1 January to 31 March 2014 relating to CCURV. This meant net expenditure was understated by £6.9m in the accounts submitted for audit. Adjusting for these misstatement increases your reported net expenditure to £78,980k.

Two other amendments were identified to correct misstatements in the CIES and balance sheet. In addition, we have identified a number of adjustments to improve the presentation of the financial statements, as well as changes in relation to misclassification or disclosure errors, including to the Collection Fund accounts and other notes to the primary statements. Further details are set out in section 2 of this report.

As noted above, whilst your closedown was fairly effective, there was an increase this year in the number of errors and misstatements in the accounts submitted for audit that required resolution, and a significant deterioration in the quality and timeliness of supporting working papers and availability of supporting evidence. There were significant gaps in the working papers provided on the first day of the audit on 1 July 2014. Some key working papers in operating expenditure and creditors, such as the aged-creditors listing, were not provided until the end of August. These gaps delayed the audit process and the insufficient supporting information increased the time taken to review key areas of the accounts.

There was a high turnover of staff and changes within the Finance department in 2013/14, which resulted in a loss of corporate memory. The Collection Fund accounts, for example, were heavily amended. In addition, handover arrangements between departing staff and replacement staff were not always sufficient, resulting in working papers having to be re-worked and re-prepared by staff that remained. Many of the initial responses to our audit queries during the audit, especially relating to our samples of income and expenditure, were not comprehensive, lacked an understanding of the audit query and failed to provide the necessary supporting information needed for us to be able to gain assurance. Protracted discussion of these areas, including the need to revisit the same audit queries due to the insufficient responses provided, also increased the time taken to audit key areas of the accounts.

The capacity of the finance team was further stretched by the impact of other priorities, notably the implementation and data transfer to the new Oracle system on 4 August 2014. This significant event took place in the middle of the planned audit dates and had a further detrimental effect on the ability to progress the audit with key officers.

Notwithstanding the above issues, relationships between the audit team and finance department have remained strong. Both teams have continued to work closely, and in partnership, to limit the impact of this situation and resolve the issues. Management has taken ownership of the issues and is committed to improvement. As we conclude the audit, we will discuss and share with you

opportunities to strengthen your arrangements for quality reviewing the draft year-end accounts and fully preparing for the audit, with a view to working closely with you to address the challenges experienced this year.

Furthermore, whilst the process of preparation for the audit and capacity and learning of the Finance department should be strengthened, management and the finance department were effective in retaining sufficient overall strategic knowledge and experience, such that the significant accounting decisions and material account entries were appropriate.

We have agreed actions for improvement with management, as set out in Appendix A.

### **Value for Money conclusion**

We are pleased to report that, based on our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We are in the process of completing our work on your Whole of Government Accounts. We intend to complete our work in accordance with the national timetable.

### **Controls**

Management are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to you.

We draw your attention to a control issue identified in relation to your IT systems. Further details are provided within section 2 of this report.

### **The way forward**

Matters arising from the financial statements audit and review of your arrangements for securing economy, efficiency and effectiveness in your use of resources have been discussed with the Director of Finance and Assets.

We have made two recommendations, which are set out in the action plan in Appendix A. The recommendation relating to the financial statements has been discussed and agreed with the Director of Finance and Assets and the finance team. The recommendation on IT controls has been discussed and agreed with the Head of ICT.

### **Acknowledgment**

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

**Grant Thornton UK LLP**  
August 2014

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the General Purposes and Audit Committee on 25 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

In the conduct of our audit, we have made one alteration to our planned audit approach.

We communicated our planned audit approach to you in our Audit Plan dated 25 June 2014. We subsequently made one alteration to our planned approach, in respect of the implementation of your Technology Forge asset register database, which occurred in 2013/14. We amended our audit approach to undertake additional work to gain assurance over the accuracy and completeness of the implementation and the data transfer.

The inherent significant risk arising in respect of this major systems implementation, and our work in response to this risk, is set out in more detail in this section.

## **Audit opinion**

Subject to the satisfactory resolution and completion of outstanding matters, as set out on pages 4 and 5 of this report, we anticipate that we will provide you with an unmodified opinion. Our proposed audit opinion is set out in Appendix B.



# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	<b>Risks identified in our audit plan / subsequently</b>	<b>Work completed</b>	<b>Assurance gained and issues arising</b>
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• cut-off testing; that transactions are recorded in the right year.</li> <li>• testing of accruals and unusual / unexpected receivables and transactions.</li> <li>• review of unusual significant transactions</li> </ul>	<p>We identified one amendment relating to the write out of a long term debtor. Further detail can be found on p15 adjusted misstatements.</p> <p>Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, our audit work to date has not identified any other issues in respect of revenue recognition.</p> <p>You have adopted appropriate accounting policies regarding revenue recognition and our testing confirms compliance with the policies.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries including review of unusual significant transactions</li> <li>• review suspense accounts obtaining an understanding of the purpose of suspense accounts</li> </ul>	<p>Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, our audit work to date has not identified any evidence of management override of controls. In particular our review of journal controls and testing of journal entries to date has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p><b>New Asset Register IT system (Technology Forge) implemented in year.</b></p> <p>There is a risk of incomplete transfer of data from the old system to the new system.</p> <p>[additional significant risk not included in our Audit Plan 25 June 2014].</p>	<ul style="list-style-type: none"> <li>• review of the general IT controls relating to the new asset register system (undertaken by specialist TRS colleagues)</li> <li>• Review of the reconciliation exercise undertaken by the capital team that checked all the data entered was complete and accurate.</li> <li>• Review of opening and closing balances to overall completeness</li> <li>• sample testing of individual items transferred from the previous system (excel sheet) onto Technology Forge and vice-versa, to review accuracy.</li> </ul>	<p>Our audit work has not identify any issues in respect of the implementation and data transfer of the new asset register system.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• verification that operating expenses included within the financial statements was complete, via review of the reconciliations between the Accounts Payable system and the general ledger</li> <li>• testing of operating expenses and creditor payments, including accruals, for completeness, classification, occurrence and cut-off</li> <li>• review of the allocation and apportioning of expenses to meet the requirements of the Service Reporting Code of Practice</li> </ul>	<p>Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b></p>	<p>- Employee remuneration accrual understated - Payroll tax obligations understated.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>• verification that the employee remuneration included within the financial statements was complete, via review of the reconciliations between the payroll system and the general ledger</li> <li>• sample testing on payroll, including cut-off testing to ensure transactions were recorded in the correct accounting period</li> <li>• review of the actuarial IAS19 cost of retirement benefits and officer remuneration disclosures, including exit costs</li> </ul>	<p>Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>  <i>continued....</i>	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>carried out certification work (HB Count) on the housing benefit claim, including testing a sample of claims, reconciliation of expenditure to the subsidy claim, completing the software diagnostic and analytical review</li> <li>analytical review and testing of Council tax support</li> </ul>	Testing of a sample of benefits payments identified an error, resulting in the need to undertake additional testing. The error related to an underpayment of benefit. We do not anticipate that the level of error will result in a material misstatement in your accounts. Our findings in this respect are also subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5.
<b>Housing Rent Revenue Account</b>	Revenue transactions not recorded	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>Verification that the HRA rental revenue included within the financial statements was complete, via review of the reconciliations between the HRA system and the general ledger</li> <li>testing of rental income including validity, appropriateness, classification and cut-off</li> </ul>	Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, our audit work to date has not identified any significant issues in relation to the risk identified.
<b>Property, plant &amp; equipment</b>	- PPE activity not valid - Revaluation measurement not correct - PPE improperly expensed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>review of the reconciliation of PPE records</li> <li>review of the revaluation exercise</li> <li>testing of a sample of PPE records for existence and to deeds</li> <li>testing that operating expenditure already selected for testing was not capital in nature</li> </ul>	Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, our audit work to date has not identified any significant issues in relation to the risk identified.  Management carries out a rolling programme of revaluations (except for Council dwelling assets which are re-valued annually), so that each general fund asset is re-valued at least once every five years. We comment on the appropriateness of this approach in more detail in the 'key estimates and judgements' section of our report.

# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
CCURV LLP	Yes	Targeted	<p>The accounting period for CCURV LLP was the year ended 31 December 2013 and is therefore not co-terminus with that of the Council.</p> <p>The Group Accounts will be prepared to include the CCURV LLP statutory accounts for the year ended 31 December 2013, adjusting for the period to 31 March 2013 and adding the management accounts for the three months to 31 March 2014.</p>	<p>We have not yet received the audited CCURV LLP accounts from 31 December 2013, nor sufficient appropriate audit evidence directly from the auditors of CCURV LLP.</p> <p>We have reviewed the CCURV management accounts to 31 March 2014.</p> <p>We have also reviewed the consolidation process and tested consolidated group entries.</p>	<p>Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, and in particular the receipt of the audited CCURV LLP accounts and other information from the CCURV auditors, we do not anticipate that our audit work will identify any significant issues in respect of the consolidation of CCURV LLP.</p>
Croydon Care Solutions Limited	No	Analytical	n/a	<p>We have not yet received the audited accounts for Croydon Care Solutions Limited from 31 March 2014.</p> <p>We have reviewed the consolidation process and tested consolidated entries.</p>	<p>Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, and in particular the receipt of the audited accounts for Croydon Care Solutions Limited, we do not anticipate that our audit work will identify any significant issues in respect of the consolidation of Croydon Care Solutions Limited.</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with your financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth. It is measured at the fair value of the consideration received or receivable. In most cases, the consideration receivable is in the form of cash and cash equivalents and the amount of revenue is the amount of cash and cash equivalents receivable. However, if payment is on deferred terms (i.e. beyond normal credit terms), the consideration receivable is recognised initially at the cash price equivalent (that is, the discounted amount). The difference between this amount and the total payments received is recognised as interest revenue in Surplus or Deficit on the Provision of Services. The policy applies to:                             <ul style="list-style-type: none"> <li>the sale of goods; the provision of services; interest, royalties and dividends and non exchange transactions (i.e. council tax).</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The accounting policy is adequately disclosed in line with the requirement of the Code.</li> <li>Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, our testing to date of government grants and contributions, housing rents and other revenues has not identified any instances of inappropriate revenue recognition.</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>
<p><b>Judgements and estimates</b></p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>group boundaries</li> <li>recognition of school assets</li> <li>provisions</li> <li>prepayments and allowance for bad debt</li> <li>accruals</li> <li>actuarial valuations of the pension fund under IAS19</li> <li>PPE - useful life of capital equipment                             <ul style="list-style-type: none"> <li>- impairment and depreciation</li> <li>- revaluation (overleaf)</li> </ul> </li> </ul> <p><i>continued.....</i></p>	<p>Subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5, we have the following comments:</p> <ul style="list-style-type: none"> <li>Judgements and estimates have been disclosed appropriately and adequately in accounting policies and notes 3 and 4.</li> <li>The disclosures in the accounting policies and notes 3 and 4 detail the level of judgement used and the extent of judgement involved.</li> <li>No evidence has been identified during our audit to suggest management has not exercised appropriate and reasonable judgement.</li> <li>We have performed a detailed review of your business rate appeals provision, which is accounted for the first time in 2013/14. We are satisfied that you have taken an adequate approach to estimating this provision. Your business rates provision was initially incorrectly disclosed in your financial statements. Following amendments to your Collection Fund Account as set out in the 'Adjusted misstatements' section of this report, it has now been correctly disclosed.</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>

# Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates continued.....</b></p>	<ul style="list-style-type: none"> <li>Note 12 of the accounts sets out your rolling programme of revaluations. This shows that the date of valuations vary between 2009/10 and 2013/14.</li> </ul>	<ul style="list-style-type: none"> <li>In our view, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.</li> <li>This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be re-valued on a rolling basis provided that:               <ul style="list-style-type: none"> <li>the revaluation of the class of assets is completed within a 'short period'; and</li> <li>the revaluations are kept up to date.</li> </ul> </li> <li>In our view, however, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</li> <li>This approach is similar to many other authorities and you have demonstrated that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. Our findings in this respect are, of course, subject to the satisfactory resolution of outstanding matters summarised on pages 4 and 5.</li> </ul>	<p style="text-align: center;">● <b>Amber</b></p>
<p><b>Other accounting policies</b></p>	<ul style="list-style-type: none"> <li>We have reviewed your policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>

**Assessment**

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

# Adjusted misstatements

A number of required adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which management has agreed to correct. Management has, to date, agreed to adjust for all amendments that are above inconsequential.

## Impact of adjusted misstatements

All misstatements which management has, to date, agreed to adjust are set out below, along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 The value for gross income within Education Services in the CIES was understated by £100m as a result of incorrectly eliminating the Dedicated Schools Grant double count in the general ledger. A similar effect on gross expenditure meant there was no effect on net expenditure.	Education income (100,657) Education expenditure 100,657		
2 The Council purchased Davis House from Davis House LLP during the year, but a £4,721k loan, previously provided to Davis House LLP, was not written off from long term debtors when the Council acquired Davis House. Expenditure was understated by £4,721k	Exceptional item 4,721	LT debtors (4,721) CAA 4,721	(4,721)
3 The £5,796k Business Rates Appeals Provision was incorrectly included within Debtors rather than included within Short Term Provisions. As such, debtors were overstated by £5,796k, provisions were understated by £5,796k		ST provisions 5,796 Debtors (5,796)	
4 The CCURV loan incurs interest on a half yearly basis running from 1 January, but the period 1 January 2014 to 31 March 2014 was not accrued for in the 2013/14 accounts. Interest payable was understated by £2,204k	2,204 interest payable	(2,204) short term borrowing (accrued interest) 2,204 CCURV affordability reserve	(2,204)
<b>Overall impact</b>	<b>£6,925</b>	<b>£0</b>	<b>(6,925)</b>

## Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	various	Financial Review by the Chief Financial Officer	A large number of values and balances disclosed in the Financial Review were incorrect and required updating.
2 Disclosure	n/a	Accounting policies - school buildings note 1.5.1a	This note was updated to reflect that Voluntary Aided and Controlled schools are also not included on the Council's Balance Sheet, in addition to Academies and Foundation schools.
3 Disclosure	n/a	CIES – public health comparative	Information about the new public health line in the Comprehensive Income and Expenditure Statement has been inserted into the accounts.
4 Disclosure	various	Note 27 - operating segments	Income and expenditure were correctly included in the CIES, but were not split correctly across the Children, Families and Learning department expenditure and income headings in the disclosure note. This in turn affected several income and expenditure lines and balances. However, the total net cost of services and total deficit on the provision of services in the note were unaffected. A number of subsequent totals and sub-totals in the note required correction.




# Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		<p>Lack of user access rights review</p> <ul style="list-style-type: none"> <li>A review of user management processes identified that user accounts and associated permissions within network and financial reporting critical applications (i.e. Oracle Financials and Northgate and Technology Forge) were not being routinely reviewed for appropriateness.</li> <li>The absence of formalised users' access rights reviews may result in access to information resources and system functionality not being restricted on the basis of legitimate business need. Users' access rights may become disproportionate to their responsibilities</li> </ul>	<p>We recommend that formal reviews be undertaken of user access permissions in the network and financial critical applications (Oracle Financials and Northgate iWorld and Technology Forge) to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.</p>

## Assessment

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

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge your decision to prepare the financial statements on a going concern basis.</li> </ul>
7.	<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>We have reviewed all reports issued by Internal Audit in the year. This review did not highlight any instance of material control weaknesses which have impacted on our risk assessment.</li> <li>The Annual Assurance Statement for the year ended 31 March 2014 has concluded that internal controls within financial systems and operational systems operating throughout the year are fundamentally sound.</li> </ul>
8.	<b>Annual Governance Statement</b>	<ul style="list-style-type: none"> <li>We have reviewed the Annual Governance Statement to confirm it complies with the requirements of 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the disclosures made are consistent with our knowledge of you and your key strategic risks. We have no matters to report in this respect at this stage.</li> </ul>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in your use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience .** You have robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** You are prioritising your resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2014. We therefore propose to issue an unqualified value for money conclusion at the same time as our opinion on the financial statements. We set out below a summary of our findings against six risk areas which have been used to assess your performance against the Audit Commission's criteria. We have reported the detail

to you in a separate Value for Money Conclusion report.

We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	<b>Adequate arrangements</b>
<b>Amber</b>	<b>Adequate arrangements, with areas for development</b>
<b>Red</b>	<b>Inadequate arrangements</b>

## Key findings

### Securing financial resilience

We have considered your arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Theme	RAG rating 2013-14	RAG rating 2012-13
Key indicators of performance	Amber	Green
Strategic financial planning	Amber	Amber
Financial governance	Green	Green
Financial control	Amber	Green

You achieved a balanced revenue budget in 2013/14, although you incurred a £51m capital expenditure slippage on £178m of capital schemes. This suggests your schemes require more realistic programming to ensure that slippage in capital expenditure in future is kept to a minimum.

You set a balanced revenue budget for 2014/15 and plan to achieve this without using the £70m general fund and earmarked reserves. However, your monitoring at the first quarter of 2014/15 indicates this is not currently on track and a year-end contribution of £2.9m from General Fund balances will be needed if corrective action is not taken over the remainder of the year.

Our work highlighted that your medium term financial strategy has identified shortfalls in your 2015/16 to 2017/18 budgetary forecasts that total £93m. This is a significant risk and one that threatens the longer term financial stability of the Council. However, despite the potential for financial breakdown, you have a good track record of strong financial management, demonstrated by past and current performance. The arrangements underpinning this performance remain in place and will support your implementation of the plans you have put in place to address the shortfalls over the next six months.

We did note this year, however, that the combination of staff changes within Finance, implementation of a new financial system and your attention on finding the budget shortfalls affected your preparedness for the financial statements audit, which was not as well run as in previous years.

Your plans to find the solution to the significant budget shortfalls have entailed a fundamental review of all service provision and a completely different approach to compiling the budget. In January 2014, you engaged external support to help you mitigate the forecast ‘gaps’ to reduce the predicted shortfalls, which for 2015/16 total £35m.

By April 2014, this process had already ‘identified’ around two thirds of the £93m in high level shaped ideas across the period, under a transformational agenda, as you continue to decide what the core priority needs are for Croydon in addition to the minimum statutory requirements.

You are pursuing a twin track approach of transformation: the Croydon Challenge of alternative solutions, together with a more immediate and traditional ten per cent budget savings review. At the end of July 2014, through a combination of the early findings from both processes, you have provisionally ‘identified’ how you will address the 2015/16 shortfall of £35m at a middle-detail level.

You remain focussed on turning this into the fine detail that will be needed to stand up to the robust Member-led Star Chamber budget challenge process in the Autumn of 2014 and be fully deliverable in the detailed 2015/16 budget. Whilst this time frame for the 2015/16 budget is tight with formal approval of the finished budget expected in February 2015, you are currently on track with your programmed timetable.

You are also expecting this process will identify some of the second and third year budget savings too. You are also not planning to use the £70m general fund and earmarked reserves that you expect to remain intact at 31 March 2015 provided your 2014/15 budget outturns are delivered. This therefore provides some scope to absorb financial shocks and help mitigate the immediate risk.

You have good arrangements to support financial governance and financial control. These support the setting of prudent and deliverable budgets based on sound assumptions. You regularly monitor variations and progress against the revenue budgets at a departmental level.

In our view, despite the scale of the financial challenge you are facing, overall you have adequate arrangements in place for securing financial resilience. The challenge you face, however, is significant and will test even the strongest of arrangements.

### Challenging economy, efficiency and effectiveness

We have considered your arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity
- management of natural resources

Overall our work has not highlighted any significant issues in addition to those identified under our Financial Resilience review to bring to your attention.

Theme	RAG rating 2013-14	RAG rating 2012-13
Prioritising resources	Green	Green
Improving efficiency & productivity	Green	Green
Management of Natural Resources	Green	Green

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

# Fees, non audit services and independence

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

## Fees

	Per Audit plan £	Actual fees £
Council audit	227,880	TBC
Additional fee NDR3	0	2,600
Grant certification	33,712	TBC
<b>Total audit fees</b>	<b>261,592</b>	<b>TBC</b>

The Audit Commission determines the audit fee for each body. The audit fee comprises the 'scale fee' plus the fee associated with any additional work required to deliver the audit opinion. The Audit Commission defines the scale fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

Additional audit work has been required this year, as set out in this report. We will discuss the implications for the audit fee with the Director of Finance and Assets following the conclusion of the audit.

There is also an additional fee of £2,600 in respect of work on material business rates balances. This additional work is necessary as auditors are no longer required to carry out work to certify NDR3 claims. The grant certification fee has been reduced accordingly. The additional fee is only 50% of the average fee previously charged for NDR3 certifications for London Boroughs (i.e. the Council benefits from an overall net fee reduction).

Certification work is on-going. The final fee will reported to the Audit Committee later in the year in our annual certification report.

## Fees for other services

Service	Fees £
None	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as your independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers your key risks when reaching our conclusions under the Code.

It is your responsibility to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how you are fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**High** - significant effect on control system

**Medium** – effect on control system

**Low** – best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	Formally review user access permissions in the network and financial critical applications(Oracle Financials and Northgate iWorld and Technology Forge) to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. <i>This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.</i>	Medium	Agreed. A process has now been set up to ensure there will be regular review throughout the year. Work has already been started on this.	Leigh Snagg and Eric Lagaille - Technical Support and Development Managers  Overall responsibility: John Gladman – Head of ICT – Client Unit  31 August 2014 and ongoing
2.	<ul style="list-style-type: none"> <li>i. Ensure that a robust quality assurance and management review process is in place for reviewing draft accounts prior to submitting them for audit.</li> <li>ii. Review the effectiveness and impact of recent staff changes to the Finance department and ensure there is sufficient capacity and timescale to prepare and quality review the draft accounts and all working papers before submission to the auditors next year.</li> <li>iii. As part of the closedown process, provide training for non-Corporate finance based staff to help them prepare responses supported by evidence for any questions raised by Finance and / or in the course of the audit.</li> </ul>	Medium	Agreed. A full review is being done to ensure improvements are made. Given the continued reduction in our resources a more radical approach will also be taken to achieve the same outcomes.	Richard Simpson - Director of Finance and Assets  31 March 2015

# Appendix B: Audit opinion

**We anticipate we will provide you with an unmodified audit report**

## Independent auditor's report to the Members of Croydon Council

### Opinion on the financial statements

We have audited the financial statements of Croydon Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Croydon Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Director of Finance and Assets and Section 151 Officer and auditor

As explained more fully in the Statement of the Director of Finance and Assets and Section 151 Officer's Responsibilities, the Director of Finance and Assets and Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Assets and Section 151 Officer and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Croydon Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

### Opinion on other matters

In our opinion, the information given in the financial review for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:  
securing financial resilience; and  
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Croydon Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Delay in certification of completion of the audit**

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Croydon Council. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2014. As the authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

We also cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion

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

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xx September 2014



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