

Audit & Governance Committee Supplementary Agenda 2



- 10. Approval of 2021-22 Statement of Accounts (Pages 3 - 8)**
Appendix 4 – Croydon Council opinion 21-22

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Independent auditor's report to the members of London Borough of Croydon

Report on the Audit of the Financial Statements

Disclaimer of opinion

We were engaged to audit the financial statements of London Borough of Croydon (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account – Income and Expenditure Statement, the Movement in Reserves on the HRA Statement, the Collection Fund – Income and Expenditure Account, and the notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Main Financial Statements, Statement of Accounting Policies, Notes to the Collection Fund Statement, 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 2021/22.

We do not express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion



The Accounts and Audit (Amendment) Regulations 2024 ('the Regulations') require the Authority to publish audited financial statements for the year ended 31 March 2022 by 13 December 2024 ('the backstop date'). The backstop date has been put in law with the purpose of clearing the backlog of historical financial statements. We have not been able to obtain sufficient appropriate audit evidence by the backstop date to conclude that the Authority's and group's financial statements for the year ended 31 March 2022 as a whole are free from material misstatement.

In addition, the Authority is required to prepare group accounts as required by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22. We were unable to obtain sufficient appropriate evidence for the group accounts due to the related statements and associated disclosures not being prepared by the Authority.

We issued a disclaimer of opinion in 2019/20. We also issued a report in the public interest in January 2022 which outlined our concerns over the historical decision making and governance arrangements relating to the refurbishment of Fairfield Halls. The £62.6 million refurbishment of Fairfield Halls was undertaken by the Authority's wholly owned subsidiary Brick by Brick Croydon Ltd and funded by the Authority. This report highlighted potential non-compliance with laws and regulations by the Authority. In response, the Authority engaged a forensic expert to investigate the matters detailed in our report. The Authority's consideration of the forensic expert's report and other reports, including our report in the public interest on Fairfield Halls, plus our separate report in the public interest concerning the Authority's financial position and related governance arrangements, led to the Authority referring matters to the Metropolitan Police to consider whether a misconduct in public office offence has been committed. Management were unable to quantify the potential impact of this ongoing police investigation on the financial statements. As a result of these matters, we have been unable to perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the current period financial statements.

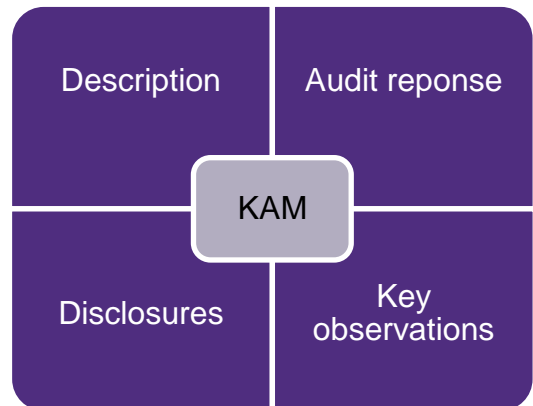
We have therefore issued a disclaimer of opinion on the financial statements. We were also unable to obtain sufficient appropriate evidence for the corresponding figures for the same reason. This enables the Authority to comply with the requirement in the Regulations that they publish audited financial statements for the year ended 31 March 2022 by the backstop date. We have concluded that the possible effects on the financial statements of undetected misstatements arising from this matter could be both material and pervasive.

Our approach to the audit

 	<p>Overview of our audit approach</p> <p>Financial statements audit</p> <p>Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have been unable to determine materiality for 2021/22 before the backstop date.</p>
	<p>Key audit matters</p> <p>Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we did not perform audit procedures to identify any key audit matters, significant risks or other risks relevant to the audit.</p>
	<p>Value for money arrangements</p> <p>We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022. Our approach to this work is set out in the 'Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources' section of this report.</p>

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and Authority's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we did not perform audit procedures to identify any key audit matters, significant risks or other risks relevant to the audit.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have been unable to determine materiality for 2021/22 before the backstop date.

Other information we are required to report on by exception under the Code of Audit Practice

Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have been unable to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

Opinion on other matters required by the Code of Audit Practice

The Corporate Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority's financial statements and our auditor's report thereon. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have been unable to form an opinion, whether based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, whether the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Corporate Director of Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Resources. The Corporate Director of Resources 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Authority and group's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on those financial statements.

We are independent of the Authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The audit was defective in its ability to detect irregularities, including fraud, on the basis that we were unable to obtain sufficient appropriate audit evidence due to the matters described in the basis for disclaimer of opinion section of our report.

Other matters which we are required to address

We were appointed by Public Sector Audit Appointments Ltd in December 2017 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is ten years, covering the years ending 31 March 2013 to 31 March 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Authority and we remain independent of the Authority in conducting our audit.

We have provided the following services in addition to the audit, to the Authority and its subsidiaries since 1 April 2022 that have not been disclosed separately in the Statement of Accounts:

- agreed-upon procedures in relation to the Housing Benefit Subsidy Claim and the Teachers' Pension return for the years ending 31 March 2021, 2022, 2023 and 2024.

Our audit opinion is consistent with the additional report to the Audit and Governance Committee.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter except:

- On 23 October 2020 we identified significant weaknesses in the Authority's financial position and related governance arrangements. We issued a report in the public interest following concerns identified around the Authority's financial position and related governance arrangements. Our report made eight high priority recommendations to the Authority.
- On 26 January 2022 we identified significant weaknesses regarding the refurbishment of Fairfield Halls and related governance arrangements. We issued a second report in the public interest highlighting historic failings in the Authority's financial, governance and legal arrangements for the Fairfield Halls refurbishment, with weaknesses in procurement and contract management of the project. Our report made twelve recommendations of which seven were written recommendations.
- On 20 March 2023 we identified significant weaknesses in the Authority's legacy financial management and governance arrangements. We made written recommendations to Authority under section 24 of the Local Audit and Accountability Act 2014.
- On 20 April 2023 we identified significant weaknesses in the Authority's arrangements for financial sustainability. This was in relation to the Authority continuing to face significant financial pressures. During 2020/21, the Authority issued two Section 114 notices in 2020/21 and requested a £150m capitalisation directive. The Authority issued a third Section 114 notice in November 2022. Our work identified that the Authority did not have adequate arrangements for scrutinising savings plans before approval, in-year reporting and monitoring of progress against target for savings. We

also identified significant weaknesses in the Authority's arrangements to support sustainable delivery and transformation.

We recommended that with three s114 notices having been issued in two years, and the Authority having made it clear that extraordinary government support is required to return to financial sustainability, it will be important that the Authority maintains discipline over its own savings and transformation plans. For savings plans, Internal Audit recommendations for improvement in Star Chamber processes should be implemented as a matter of priority. Only plans that are realistic should be approved. For transformation projects, arrangements should be put in place for tracking and challenging outcomes before any further funding is approved.

- On 20 April 2023 we also identified significant weaknesses in the Authority's arrangements for governance. These were in relation to the Authority's arrangements for risk management, internal control arrangements and resolving and reporting of outstanding internal audit recommendations. In addition, the number of issues raised from our work suggests there were wider issues with underlying cultural standards and overseeing standards in 2020/21 and 2021/22.

We recommended that the Authority should:

- Continue to focus on resolving Internal Audit recommendations, including from 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22.
- Continually review arrangements for overseeing standards and codes of conduct. The Ethics Committee, in overseeing standards, should be mindful that the substance of cultural behaviour is as critical as the procedural form.
- On 20 April 2023 we identified significant weaknesses in the Authority's arrangements for improving economy, efficiency and effectiveness. Our work found weaknesses within the Authority arrangements for working with partners in the housing service during 2020/21 and 2021/22, including arrangements for repairs. We also identified significant weaknesses in arrangements for procurement throughout 2020/21 and 2021/22. In particular, there was an investigation into the risk of illegality in connection with the overspends on the Fairfield Halls refurbishment. We recommended that:
 - Regular engagement with residents should continue. The Authority's goal should be to improve upon a performance where 36% of its respondents described their experience with the Authority as poor or very poor. As the housing contracts are re-procured or insourced, they should be sense checked for lessons learnt from engagement with the previous contractor. Working with partners is more effective where there are shared goals, clear roles and responsibilities, performance metrics that are monitored, and a forward-looking view.
 - The Authority should continue the work started to strengthen procurement arrangements. This will be particularly important as the Authority prepares for new procurement legislation and a transition period in 2023, when two different sets of regulations are expected to be in force at the same time.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in November 2024. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We have documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for London Borough of Croydon for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of matters brought to our attention, including whether we need to exercise any of our formal powers, as listed in the matters on which we are required to report by exception section of our report, relating to the outcome of the ongoing police investigation.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date: