

DRAFT

External Audit Plan

Year ending 31 March 2020

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

London Borough of Croydon

9 March 2020



Contents



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

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1. Introduction & headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

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

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts

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

- Brick by Brick Croydon Limited

Significant risks

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

- Fraud in revenue recognition – this risk has been rebutted for the Authority as documented on Page 7
- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability
- Valuation of Investment Properties
- Transfer of Properties from the Authority to the Pension Fund
- Incomplete or inaccurate financial information transferred to the new general ledger

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

Materiality

We have determined planning materiality to be £18.5 million (PY £23.483 million) for the Group and £18 million (PY £22.572 million) for the Authority, which equates to around 1.4% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £900k (PY £1.129 million).

Introduction & headlines (continued)

Value for Money arrangements

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

- 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

Audit logistics

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

Our fee for the audit will be £188,602, subject to PSAA approval (PY: £152,602) for the Authority, which is also subject to the Authority meeting our requirements set out on page 17.

Independence

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

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For you, we are aware that there are continuing pressures on Social Care despite all of the good work which has taken place over recent years, along with the impact of Nil Recourse to Public Funds on your budgets.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty (update as appropriate). The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial Reporting and Audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Implementation of IFRS 16 – Leases

Following on from some delays in implementation, the new Leases Standard, IFRS 16, is finally implemented by the Public Sector from the 1st of April 2020. Whilst there are minimal changes to lessor accounting, there are considerable changes to lessee accounting, including the removal of operating leases, so all leases held as a lessee will now be on the lessee's Balance Sheet. However there are some exemptions which you will need to consider, covering low value assets and short term leases.

Whilst the main financial impact of the new Standard will be on the 2020-21 Accounts, you are required to report the potential impact of the new Standard in this year's Accounts, hence work will be needed in advance of then to ensure an accurate impact is disclosed in this year's Accounts.

Development of further innovative arrangements

The Authority has continued to consider alternative solutions to some of its challenges during 2019-20:

- the Authority has agreed to transfer 348 properties to the Pension Fund in lieu of a reduced contribution rate over the course of the next 40 years
- they are also undertaking additional borrowing for Tranche 3 of the ETA Scheme, which the Authority is hoping will generate additional income streams over the coming years.

There will also be accounting challenges over these arrangements as well.

Our response

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

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Strategic Director of Finance and Governance and is subject to PSAA agreement.

- We will review your arrangements ahead of the implementation of IFRS 16 to ensure that all potential leases covered by the new Standard are identified.
- We will also assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020 as part of our work at year end.

- We will review the new arrangements during the course of the year and ensure proper process has been followed around these.
- We will also review the accounting for these transactions, where applicable, for the 2019-20 Accounts, to ensure these have been processed correctly.

3. Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
London Borough of Croydon	Yes		Refer to pages 7 to 10 of this Plan for details of the risks identified.	Full scope UK statutory audit performed by Grant Thornton UK LLP
Brick by Brick Croydon Ltd	Yes		<ul style="list-style-type: none"> • Risk of fraudulent revenue recognition • Management override of controls • Work in progress activity not valid (Valuation Gross) • Work in progress impairment not accounted for properly (Valuation Net) • Operating expenses understated or not recorded in the correct period (completeness) None of these risks are considered material risks at the group level.	Targeted review of specific material balances and reliance on the statutory audit performed by the Auditor of Brick by Brick Croydon Ltd for the year ended 31 March 2020
Croydon Affordable Homes LLP	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP
Croydon Affordable Tenures LLP	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP
Croydon Care Solutions Ltd	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP
Octavo Partnership Ltd	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP
Croydon Enterprise Loan Fund Ltd	No		No specific risks identified	Analytical review performed by Grant Thornton UK LLP

Audit scope

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

4. Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Group and Authority	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the London Borough of Croydon, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for the London Borough of Croydon.</p>	<p>In respect of Brick by Brick Croydon Ltd, whilst we are not able to specifically rebut the revenue recognition risk, as the level of revenue received by Brick by Brick is not material, this risk does not have an impact on our audit approach for the group accounts.</p>
Management over-ride of controls	Group and Authority	<p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Group and Authority	<p>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</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We will engage 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. • Test a sample of revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of the pension fund net liability	Group and Authority	<p>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.</p> <p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update 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 evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties	Group and Authority	<p>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.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.</p> <p>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</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which will include 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. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluate 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.
Transfer of Properties from Authority to Pension Fund	Group and Authority	<p>During the course of the year, the Authority has 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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review the legal advice obtained by the Authority in respect of this transaction • consider the actuarial impact of the transfer on the Authority's Contribution Rates, and the potential impact of this transfer on the Authority's Defined Benefit Net Liability • consider the advice obtained by the Authority and the Pension Fund over the risks attached to the transaction, given how far in the future the proposed transfer of properties is scheduled to be. • review the disclosures around the transfer to ensure they correctly reflect the transaction in both the main Authority and Pension Fund Accounts.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Incomplete or inaccurate financial information transferred to the new general ledger</p>	<p>Group and Authority</p>	<p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • complete 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 • map 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 will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	<p>The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.</p> <p>In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority’s 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. In particular, we will consider you have considered the property held under its Emergency Temporary Accommodation (ETA) programme, along with the leases attached to your Investment Property as well. • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

We will communicate significant findings on this area as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

6. Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

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

7. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

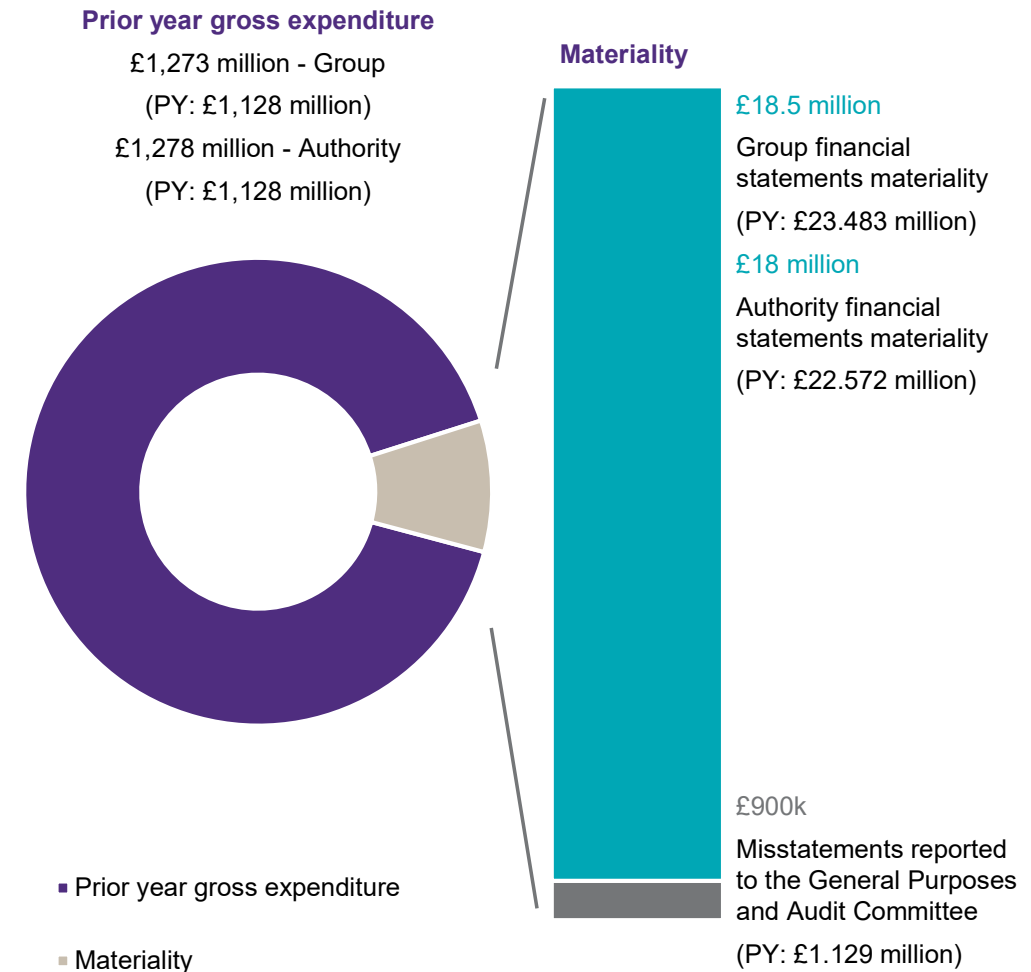
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £18.5 million (£23.483 million) for the group and £18 million (PY £22.572 million) for the Authority, which equates to approximately 1.4% of your prior year gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redmond. We design our procedures to detect errors in specific accounts at a lower level of precision, which we have determined to be £100,000 for the disclosures relating to Senior Officer Remuneration.

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

Matters we will report to the General Purposes and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the General Purposes and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £900k (PY £1.129 million).

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



8. Value for Money arrangements

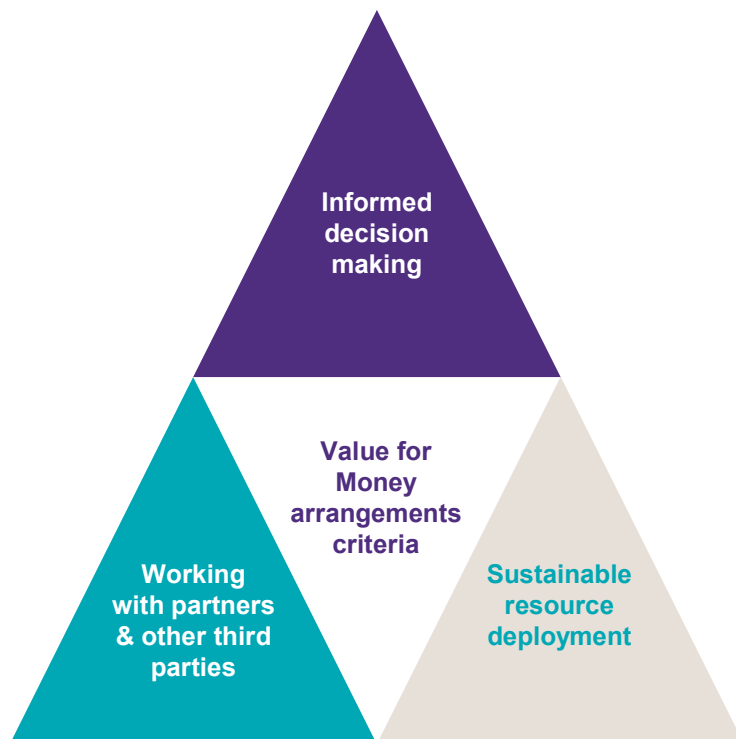
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

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



Ongoing Financial Sustainability

Risk

The Authority is continuing to face pressure on delivering its services within the agreed budget with particular pressures on Adult Social Care and Unaccompanied Asylum Seeker Children as well as increased demand for temporary accommodation and the impact of nil resource to public funds.

These are putting the Authority’s finances under considerable strain. Therefore the Authority needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Authority will need to monitor developments close as the end of March approaches.

Planned Response

To gain assurance over this risk we are planning to:

- review the action taken to respond to our 2018/19 recommendations
- review the 2019/20 Outturn, including details of performance against both the Revenue and Capital Budgets
- review progress against the 2020-21 financial plan up to the completion of our audit; and
- obtain an update on the Authority’s Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date.

We will also consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority’s workforce.

Value for Money arrangements (continued)

Significant VFM risks

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



OFSTED Inspection of Children’s Services

Risk

Following the OFSTED Report in September 2017 in respect of the Authority’s Children Services, which rated the service as ‘Inadequate’, the Authority is continuing to implement its action plan to deal with the issues raised by OFSTED.

We are aware that you were subject to reinspection by OFSTED in January 2020 and that you await the outcome of this inspection to validate the improvements that have been made by the Council since 2017. We will consider the outcome of this reinspection, and any further recommendations raised as part of our assessment of this risk.

Planned Response

To gain assurance over this risk we are planning to:

- review the progress made against the action plan, including resolving any challenges identified during the implementation of the action plan.
- consider the results of the follow up inspection undertaken by OFSTED in January 2020.
- consider the Authority’s performance against its objectives and targets set internally to monitor the overall progress made in this area.



The Governance of the Authority’s Alternative Delivery Models

Risk

The Authority’s Alternative Delivery Vehicle, Brick by Brick Croydon Ltd, is moving into the phase where dividends are expected to be received by the Authority. As the Alternative Delivery Vehicle develops, the Authority needs to ensure the governance processes in place remain appropriate.

Planned Response

To gain assurance over this risk we are planning to:

- review the arrangements in place around Brick by Brick Croydon Ltd and the other existing Vehicles in which the Authority has an interest
- consider the governance arrangements in place for the Authority to gain the intended benefits from its subsidiary

9. Audit logistics & team



Sarah Ironmonger, Key Audit Partner

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



Matt Dean, Senior Audit Manager

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



Stessy Juganaikloo, In-Charge Accountant

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

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

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

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Strategic Director of Finance and Governance and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Authority Audit	£172,860	£152,602	£188,602
Total audit fees (excluding VAT)	£172,860	£152,602	£188,602

Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	133,102	Fee as per PSAA Website for 2019-20
Raising the bar	11,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	4,000	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	9,500	We have engaged our own audit external expert – Gerald Eve, and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE and Investment Property valuations. We estimate that the cost of the auditors expert will be in the region of £5,000.
The implementation of IFRS16	3,000	Whilst IFRS16 is only formally adopted from the 1 st of April 2020, Local Authorities will be required to make an assessment of the potential impact of the new Standard for this year’s Accounts. Therefore additional work will be needed as part of this year’s audit to ensure the reasonable and appropriateness of this disclosure.
Group Accounts	4,000	As the Authority is potentially increasing its interests in several other bodies, we are required to consider whether Group Accounts are required, along with potentially increased disclosures in this area as well.
Public Interest Entity (PIE)	4,000	As the Authority continues to hold an element of listed debt, this means the Authority remains a Public Interest Entity under the regulation of the Financial Reporting Council. As a result we have to issue an Enhanced Audit Report, which requires additional work over and above a normal Audit Opinion.

Audit fee variations – Further analysis (continued)

Audit area	£	Rationale for fee variation
New IT System	7,500	For 2019-20 the Authority has moved to a new Cloud-Based Version of Oracle, away from the old Server-Based System. We will need to undertake additional work to make sure that the balances have transferred across correctly between the Systems, and to update our understanding of the underlying IT Controls as well. Due to the complex nature of this change, we will be engaging specialist IT Auditors to help support the main Audit Team with the work in this area.
Welfare Benefit Testing	5,000	As we no longer perform the work on the Authority's Housing Benefit Subsidy Return, this means that we are now performing additional work that previously would have been delivered as part of our work on the Subsidy Return, which would have previously fell outside the Scale Fee. This cost would be removed if we were successful in tendering for the Council's 2019-20 Housing Benefit Work.
Work on Property Transfer	4,000	During last year's audit, we were made aware that the Authority was planning to transfer a number of properties to the Pension Fund in return for a lower level of Contributions to be made to the Pension Fund. Due to the innovate and complex nature of this arrangement, we will need to consider it carefully to ensure it has been accounted for correctly in this year's Accounts.
Work on New Property Arrangements	3,000	The Authority is considering undertaking the 3 rd Stage of its ETA Programme during 2019-20, which will involve securing additional financing to purchase and renovate the houses involved. Due to the complex nature of the financing, we will need to undertake additional work to ensure this has been accounted for correctly. Should the progress of this programme slip into 2020-21, then this fee would be deferred until then as well.
Additional work on the Value for Money Conclusion	TBC	Following on from the Adverse Value for Money Conclusion issued in 2018-19, we will need to undertake additional work in 2019-20 in order to reach our conclusion. At this stage we are unable to confirm the exact level of work needed, and thus we are unable to confirm the level of additional fees that will arise from this work.
Revised scale fee (to be approved by PSAA)	188,602	

11. Independence & non-audit services

Auditor independence

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

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Refer to the following page for details of the Non-Audit Services provided to the Council in 2019-20.

11. Independence & non-audit services (continued)

Other services provided by Grant Thornton

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

Service	£	Threats	Safeguards
Non-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 £133,102 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Subscription to the Adult Social Care Index	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 £133,102 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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

There have been recent changes in respect of Non-Audit Services, as a result of the new Ethical Standard, which was issued by the Financial Reporting Council in December 2019, and which takes effect from 15 March 2020. Historically the level of work we can perform at Public Interest Entities, of which the London Borough of Croydon is one, has been limited, and the new Standard introduces an even narrower list of permitted services which we can offer. As a result, whilst the above subscriptions to CFO Insights and the Adult Social Care Index can be delivered in 2019-20, due to the fact that a contract was already in place at the date of implementation of the new Ethical Standard, these contracts will have to end on 14 March 2020 in line with the new Standard. The Firm is currently investigating potential ways in which these services can be offered after this date, and we will provide an update once this process is complete.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendices

A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

