DRAFT

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 audit plan

Year ending 31 March 2021

London Borough of Croydon

15th September 2022

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 Council 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.

Key matters

Factors

Financial pressures

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For you, we are aware that 2020-21 has been dominated by the impact of Covid 19 on the Council's services and the worsening of the Council's financial position. However, the pandemic has only added to the pre-existing cost pressures of the Council. Prior to the pandemic, the Council was already challenged by year-on-year spending pressures within both children's and adult social care and low levels of reserves which created a significant financial challenge in 2019/20.

In fact, the Council has had an unsustainably low levels of reserves for some time now. We first raised our concerns via our value for money recommendations in 2017/18 and this was subsequently followed by an adverse value for money qualification in 2018/19. However, over the years the Council's financial resilience continued to deteriorate and since then, we have published two Public Interest Reports on 23 October 2020 and 26 January 2022 and the Council has issued two Section 114 notices on 11 November and 2 December 2020. These remained in place until MHCLG (now "DLUCH") approved a £70mil Capitalisation Direction which allowed you to balance your budget and to report a General Fund position of £27mil at the 2020/21 yearend.

Improvement programme

The issuance of S114 notices and the publication of the Public Interest Reports led to the establishment of a financial improvement programme for the Council. A Finance Review Panel was set up to carry out a Rapid Review led by MHCLG (now "DLUCH"). This review identified around 400 recommendations to be enacted and the outcome of this review now underpins the Croydon Renewal Improvement Plan whose main objective is to ensure the Council can deliver a financially sustainable MTFS by 2023/24.

The Renewal Plan helped the Council secure approval for the £70mil Capitalisation Direction and this in turn allowed the Council to fund financial gaps to balance its budget in 2020/21. However, the pre-existing conditions which led to the Council's deteriorating finances are still prevalent. In-year overspends, especially across children's and adult social care continue to challenge your finances. The Capitalisation Direction might have brought some form of temporary relief to spiralling costs pressures but if Croydon is to come out financially resilient, it will have to commit to a long-term strategy not only centred on financial sustainability but with a clear focus on robust governance.

Croydon Affordable Homes LLP

Croydon had previously transferred 96 non-HRA properties to Croydon Affordable Homes LLP (CAH) in return for Capital Receipts of £21.7mil. These receipts have been used flexibly to fund transformation expenditure across 2017-18 and 2019-21. However the appropriateness of the lease treatment is currently being challenged and depending on outcome of this discussion, these Capital Receipts may not have been available to utilise flexibly, and hence would generate additional gaps in the revenue position of the Council. As a result of this discussion still being ongoing, the 2019/20 audit cannot be completed.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will provide you with sector updates via our Audit Committee updates.

Key matters

Factors	Our response

Fraud Investigation

On 26 January 2022 we published a Public Interest report which focused on the Council's arrangements for the refurbishment of Fairfield Halls. The report highlighted historic failings in the council's financial, governance and legal arrangements for the Fairfield Halls refurbishment, along with identification of weaknesses in the procurement and contract management of the project. As a result of this publication, a fraud investigation was initiated in February 2022 and is expected to conclude in September. Clearly, the outcome of this investigation could potentially impact both the 2019/20 and the 2020/21 audits and as a result we are not yet able to conclude on our 2019/20 audit.

Recovery from Covid 19 pandemic

Covid -19 has had a significant impact on your finances. Financial pressures resulted not only from additional costs but also from loss of income from council tax and business rates collections in addition to unachieved budget saving initiatives. Right from the beginning, the pandemic has required you to divert resources to deliver some of the most urgent services to the most vulnerable in the community. This has resulted in less staff time being dedicated to some of the key efficiency deliveries that had been required.

Whilst MHCLG has made additional funding available in response to the additional financial pressures and loss of income incurred by Local Authorities, the funding provided was not enough to cover all Covid-related costs you have had to meet. The pandemic has created significant and ongoing uncertainty for the finances of Local Authorities as it casts doubt over future activity and public behaviour in terms of demand for services and in particular income from the use of facilities. Whilst it is still difficult to predict the inevitable long-term change the pandemic will have, this will need to be closely monitored by you across a range of services. A robust and effective risk management strategy is key to this initiative as this will not only ensure that risks are flagged early but also that sustainable and long-term solutions are identified as early as possible.

More recently, the borough has been challenged by the rising costs of fuel, food and other essentials. These are combining with existing disadvantage and vulnerability within communities to put many households at greater risk of both immediate hardship and reduced opportunity and wellbeing. The Council and its local partners will need to continue to do what they can to protect those on the lowest incomes against higher costs for food, transport and other essentials and target help to those facing the most complex challenges. To reduce the need for short-term crisis support, there needs to be a consensus on how to move forward and build resilience through the wider welfare system, which includes not just benefits but employment support, housing, health and financial inclusion.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will provide you with sector updates via our Audit Committee updates.

Key matters

Factors	Our response

Infrastructure Assets

The CIPFA Code of Practice on Local Authority Accounting prescribes the accounting treatment and disclosure requirements for infrastructure assets and requires these to be reported in the Balance Sheet at depreciated historical cost (i.e., historic cost less accumulated depreciation and impairment). Nationally, this has become an area of regulator interest, with CIPFA and the NAO also reviewing this issue, as there a risk that where authorities have incurred expenditure on the replacement or enhancement of existing infrastructure assets, they may not readily be able to identify the original assets being replaced or enhanced. This could result in an overstatement of both gross book values and accumulated depreciation, and potentially also net book values where assets lives have not been assessed regularly and on an appropriate basis.

Minimum Revenue Provision

The Minimum Revenue Provision (MRP) is a statutory mechanism for spreading the charge to revenue for capital expenditure met from borrowing. Whilst the annual MRP charge might not be materially misstated on its own, there is a risk that MRP is cumulatively materially understated if the Authority has been understating its MRP charge over several years. As part of the ongoing 2019/20 audit, we are therefore required to perform additional procedures over the reasonableness of the historic MRP charge.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will provide you with sector updates via our Audit Committee updates.

Key matters

Factors

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness;
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach; and
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8 . As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid-19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pooled property funds which impacted both the Council's and Pension Funds position. We will monitor the position for the 31 March 2021 valuations.

Our response

- We will continue to provide you with sector updates via our progress reports to Audit and Standards Committee.
- We will liaise with the Council's valuer and Pension Fund managers to clarify any potential material uncertainties in 2020/21

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the London Borough of Croydon ('the Council') 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 agreed 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.

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 Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Governance Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit & Governance Committee of your responsibilities. It is the responsibility of the Council 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 Council is fulfilling these responsibilities.

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

Group Audit

The Council 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:

- Improper revenue recognition
- Completeness of operating expenditure
- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability
- Valuation of Investment Properties
- Accounting for Emergency Temporary Accommodation (ETA) Schemes

New significant risks in 2020/21

- Accounting for Group consolidations
- Accuracy of cash and cash equivalents
- Valuation, accuracy and existence of Brick by Brick loans
- Valuation of bad debt provision
- Senior Officers' remuneration

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

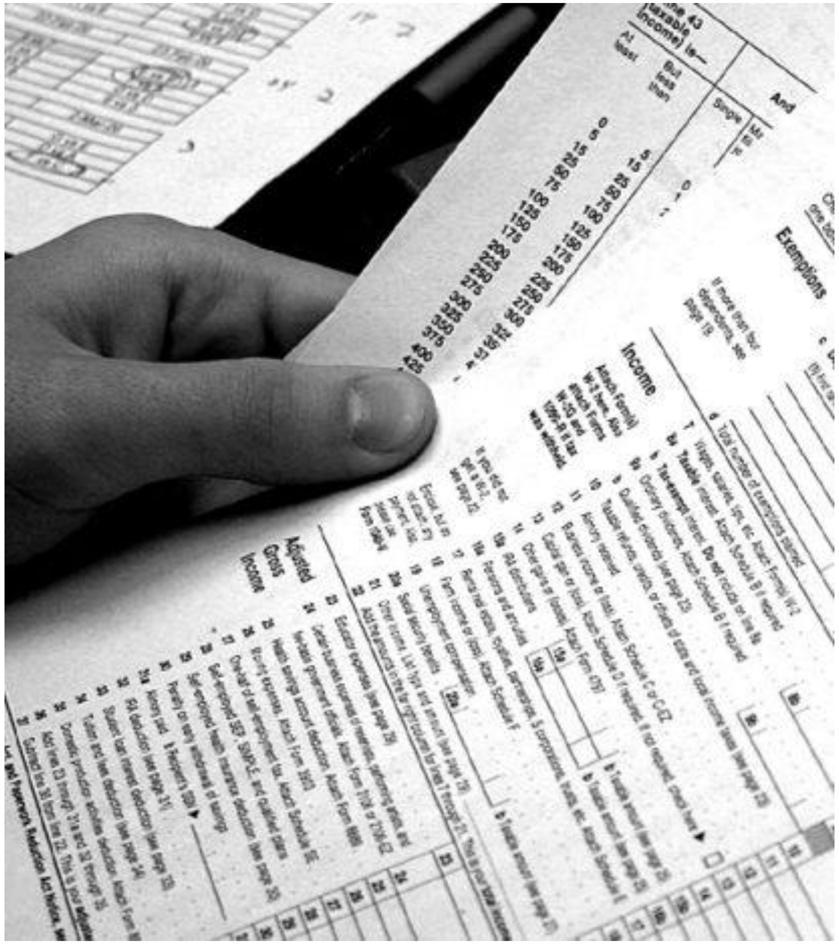
We have determined planning materiality to be £14m (PY £15m) for the group and £13m (PY £14m) for the Council, which equates to 1% of your gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.65m (PY £0.7m).

Value for Money arrangements

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

- Governance of Finance and Group Structures (including the capacity of the finance function in 2020/21 and beyond)
- The Authority's Financial Sustainability

Introduction and headlines cont.



Audit logistics

Our interim visit will take place from August and our final visit is subject to the conclusion of the 2019/20 audit and expected to take place in December. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £347k (PY: £TBC) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

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?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
London Borough of Croydon	Yes		• See pages 11 - 18	Full scope audit performed by Grant Thornton UK LLP
Brick by Brick Ltd	No		We will perform specific procedures related to the following areas: • 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)	We are not able to rely on the component auditor's work given we have identified independence issues related to the component auditor during our 2019/20 audit. We will therefore carry out specific scope procedures on balances that are significant to the group as a whole. Specific procedures will include the following: • agree, on a sample basis amounts recognised as income in the financial statements to invoices and cash in bank to gain assurance over the occurrence of income • analyse all entries within the population using our data analytics software, Inflo, and generate journals exhibiting specific risk criteria. Each journal identified will then be agreed to supporting documentation to confirm the accuracy of amounts posted and to understand the business rationale behind each selected transaction • review reasonableness of process for allocating costs to various stages of work in progress and agree a sample of properties to supporting evidence to confirm inventory and work in progress have been valued correctly • search for unrecorded liabilities by reviewing cash payments post period end.

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?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Croydon Affordable Homes LLP	No		No specific risks identified	Subject to conclusion of 2019/20 audit
Croydon Affordable Tenures LLP	No		No specific risks identified	Subject to conclusion of 2019/20 audit

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
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

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
Revenue includes fraudulent transactions - Income from fees and charges and other service income	Group and Authority	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue, which we initially rebutted for both the Group and the Council Audits. However for both audits, we have concluded that we are unable to rebut that risk for all revenue streams, due to the pressure on the overall financial position of the Group and Council. Our significant risk is pinpointed to occurrence of fees and charges and other service income. This income stream is regarded as a significant risk as there is increased risk of improper revenue recognition by management. This was one of the most significant assessed risks of material misstatement. We have still rebutted this presumed risk for the other revenue streams such as council tax and NNDR, HRA rental revenues and government grants and contribution of the Group and Council because: • Other income streams are primarily derived from grants or formula based income from central government and tax payers; and • opportunities to manipulate revenue recognition are very limited.	We will: • evaluate the Group and Council's accounting policy for recognition of income from fees and charges and other services for appropriateness; • gain an understanding of the Group and Council's system for accounting for income from fees and charges and other services and evaluate the design of the associated controls; • agree, on a sample basis amounts recognised as income from fees and charges and other services in the financial statements to invoices and cash in bank to gain assurance over the occurrence and of income.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Authority	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management's controls related to the journal entry process. • analyse all entries within the population using our data analytics software, Inflo, and generate journals exhibiting specific risk criteria. Each journal identified will then be agreed to supporting documentation to confirm the accuracy of amounts posted and to understand the business rationale behind each selected transaction • 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.
Valuation of land and buildings	Group and Authority	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 (£1.782 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management's controls related to the valuation of land and building process. • 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 management expert and our auditor's expert • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We will engage our own valuer to review the methodology and assess the reasonableness of the key assumptions used by management's valuers underpinning the valuation • Test 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and Authority	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£700 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • 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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Investment Properties	Group and Authority	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 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 (£98 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged a valuer to estimate the current value as at 31 March 2021. 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.	We will: • evaluate the design effectiveness of management's controls related to the valuation of investment properties process • 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. We will engage our own valuer to review the methodology and assess the reasonableness of the key assumptions used by management's valuers underpinning 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

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The expenditure cycle includes fraudulent transactions - Completeness of operating expenditure	Group and Authority	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition, needs to be considered as a potential significant risk, especially where organisations are required to meet financial targets. Due to the pressure to deliver a balanced budget, the low level of general fund reserves held by the Council and in year budget overspends there is a risk over the completeness of your operating expenditure. We have therefore identified the completeness of operating expenditure as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design and implementation effectiveness of the accounts payable system. • Verify that the operating expenses included within the financial statements are complete via review of the reconciliations between the Accounts Payable system and the General Ledger. • Search for unrecorded liabilities by performing a substantive sample of invoices input on to the accounts payable system post period end. • Search for unrecorded liabilities by reviewing cash payments post period end.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for group consolidations	Group and Authority	We have challenged Croydon on the level of control it has on some of its subsidiaries which are not consolidated. This is the subject of ongoing discussions between Grant Thornton and Croydon. Should it be concluded that Croydon exercises sufficient control to require consolidating these subsidiaries, this would represent a complex exercise as Croydon would be consolidating these entities for the first time. Due to the inherent complexity of such an exercise, the risk is that there are errors in the group accounting. We therefore identified group accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design and implementation effectiveness of the group-wide controls. • Evaluate the appropriateness, completeness, and accuracy of consolidation adjustments and reclassifications for purposes of preparing and presenting the group financial statements. • Agree or reconcile component financial information to group financial statements. • Determine whether significant adjustments have been correctly calculated, processed, and authorised by group management and, where applicable, by component management.
Cash and cash equivalents balance is not accurate	Group and Authority	During our 2019-20 audit, we identified that no bank reconciliation had been carried out in the 2019-20 financial year. We are also aware that the Council commissioned an external consultant to help them reconcile bank and cash. Bank reconciliations are a key control and we would expect the Council to be carrying those out not only regularly but with accuracy. The fact that an external consultant had to be commissioned to support the Council in this exercise indicates that there is a risk that cash and cash equivalents balance is not accurate. We therefore identified cash and cash equivalents as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design and implementation effectiveness of the bank reconciliation. • Obtain direct confirmation of bank balances and agree to reconciliation. • Re-perform year-end bank reconciliations and review reconciling items. • Review bank letters, general ledger and previous accounts to ensure that no accounts have been omitted from the bank reconciliation. • Agree all material reconciling items to sufficient and appropriate corroborative audit evidence (both uncleared lodgements and unpresented cheques). • Obtain and document an understanding of the rationale for any transfers between group entities at or near the period end which are included in the reconciliation and corroborate the activity to journals posted within the financial reporting systems.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Officer's remuneration is not accurate	Group and Authority	We are aware that in determining the exit package of the ex-CEO, it appears that the Council might have by-passed key controls and governance arrangements. Depending on outcome of testing in this area, this could result in the exit package being deemed to be unlawful. Senior officers remuneration is an area subject to increased public scrutiny and therefore we have a lower materiality for this disclosure. If the disclosure is not accurate due to controls being by-passed, this could lead to the disclosure being materially misstated. We therefore identified officers' remuneration as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design and implementation of the Council's processes and controls in this area. • Evaluate the process for determining exit packages to ensure this is in line with governance procedures. • Agree figures in the officers' remuneration note back to supporting schedules to ensure consistency with payroll data. • Review Council minutes and website to ensure that all senior officers are properly disclosed, with no omissions.
Accounting for transactions relating to the Emergency Temporary Accommodation (ETA) Schemes	Group and Authority	In previous years we have considered the Council's Emergency Temporary Accommodation (ETA) Schemes, focusing on both how these schemes have been financed by the Council, along with how they have been accounted for within the Council's Accounts. ETA Tranche1 was reviewed in 2017/18, and an issue was identified relating to the charging of a Reverse Lease Premium, which has been reported in our previous Audit Findings Reports. Since then we know that further tranches of the ETA Schemes have come on line with potentially different sources of finance completing in 2019/20. We also have noted a detailed review has been performed on the arrangements by PwC in 2019/20, who have flagged a number of areas for the Council to revisit as part of a wider review in this area. We will undertake further work on the back of the recommendations made by PwC to ensure items are accounted for correctly. We therefore identified the accounting for the ETA Schemes as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design and implementation of the Council's processes and controls in this area; • Review the recommendations raised by the PwC report where these impact the balances included within the financial statements and challenge management on the appropriateness of these judgements. • Review the accounting for these schemes within the 2020/21 Accounts, and consider the involvement of technical specialists to gain assurance over the appropriateness of the accounting. • Test the transactions recorded in the 2020/21 financial statements to confirm compliance with the CIPFA Code of Practice for Local Authority Accounting.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation, accuracy and existence of Brick by Brick loans	Group and Authority	During our 2019-20 audit, we identified that several of the loans given to Brick by Brick were either not supported by loan agreements or a loan schedule. Loans which were supported by loan agreements were mostly overdue and therefore impaired. This resulted in the Council getting a new loan agreement in place which was dated May 2021. However a retrospective loan agreement does not address the control failings which existed at the 2019/20 or the 2020/21 yearend. It is likely that more loans would need to be impaired at the 2020/21 yearend. As a result, there could be a risk that the Brick by Brick loans which make up the majority of long term debtors, either do not exist, are not accurate or are not valued correctly. We therefore identified the Brick by Brick loans as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design and implementation of the Council's processes and controls in this area; • Perform substantive testing on a sample of Brick by Brick loans to make sure it exists, is accurate and valued correctly. • Review the Council's credit loss assessment of the loans to ensure that the loans are valued correctly.
Valuation of bad debt provision	Group and Authority	IFRS 15 bases revenue on the amount to which an entity expects to be entitled rather than the amounts it expects to collect and therefore no reduction is made for bad debts initially. Instead, bad debt provision is determined later on as a reduction of the debtors balance. As a result, this is an area which is heavily underpinned by management judgement. At the end of 2019/20, large corporate adjustments were made which resulted in a balanced budget. A reduction in bad debt provision of £5.6mil made up the most part of the £17mil corporate adjustments. Given the Council's continued difficult financial situation throughout 20/21, there is a risk that bad debt provision have been understated in order to improve the General Fund position. We therefore identified the valuation of bad debt provision as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design and implementation of the Council's processes and controls in this area; • Obtain an understanding of the Authority's policies for bad debt provisions and if there has been any changes since the prior year; • Review the basis of estimation for bad debt provisions; • Evaluate debt collectability and determine whether there are any indications that the provision may be inadequate.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Housing revenue Account	Council	The HRA is a record of revenue expenditure and income relating to an authority's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently the HRA is a statutory account is ringfenced from the rest of the General Fund, so that rents cannot be subsidised from Council Tax (or vice versa). In 2021, CIPFA identified that a Local Authority had used payments to directly support the General Fund in coping with financial challenges faced by the Council, rather than being used for the benefit of the HRA tenants. As a result of this finding, we are now required to carry out additional procedures on HRA.	We will: • assess whether there is any evidence of savings schemes being proposed which could result in HRA funds being inappropriately transferred to the General Fund, and vice versa • review list of accounting transactions between General Fund and the HRA for evidence of breaches of the HRA ring-fence • assess on a sample basis whether expenditure and income have been charged appropriately to the General Fund and the HRA • assess on a sample basis whether interest payments have been apportioned between the General Fund and the HRA

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do the Audit & Governance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and income and expenditure accruals
- Credit loss and impairment allowances (including bad debt provision)
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates (including fair value of loans)

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have requested that management provides detail as to how the Council addresses estimation uncertainty, and to share its responses with the Audit & Governance Committee for consideration. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

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 our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - 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.

Materiality

The concept of materiality

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

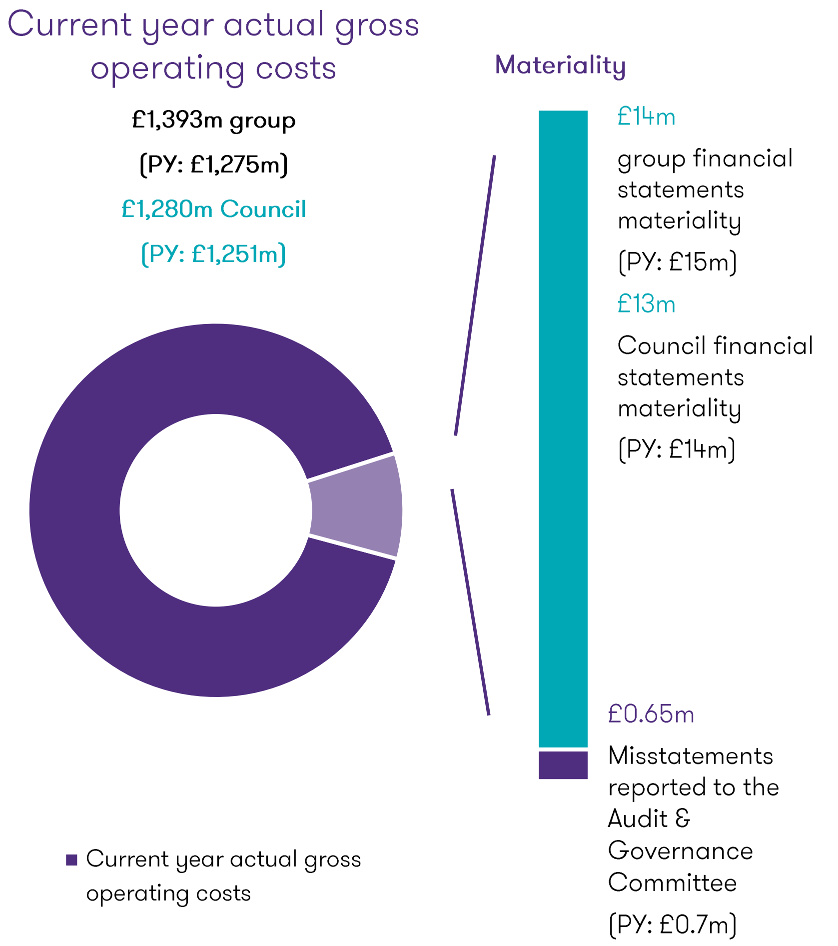
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £14m (PY £15m) for the group and £13m (PY £14m) for the Council, which equates to 1% of your gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.05m for Senior officers' 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 Audit & Governance 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 Audit & Governance 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 group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.65m (PY £0.7m).

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



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle Fusion	**Financial reporting**	• Follow up on remediation of prior year issues • Assess impact of findings and deficiencies on the audit approach
Northgate i-World	**Council Tax, Business Rates, Benefits, Grants**	• Follow up on remediation of prior year issues • Assess impact of findings and deficiencies on the audit approach

Value for Money arrangements

Approach to Value for Money work for 2020/21

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources . When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed overleaf, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Publication of a Public Interest Report to the body and the public under Schedule 7 of the Local Audit and Accountability Act 2014. Note that we have published two reports, on 23 October 2020 and 26 January 2022.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table on the previous page.

Risks of significant weakness

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

Governance of Finance and Group Structures (including capacity of the finance function in 2020/21 and beyond)

Reason for risk identification

There is a risk that intended benefits will not be achieved if governance arrangements to make informed decisions do not operate as designed. During our work on the Public Interest Report, we identified several areas where governance arrangements had not been operating as intended. As a result we have identified a significant risk for the 2020/21 Value for Money Conclusion where we will assess the impact of identified recommendations on your governance arrangements.

Proposed response to the risk

We will:

• Consider the findings of a number of reports and the extent to which their recommendations reflect the arrangements operating in 2020/21. The reports we will consider will include
• Reports in the Public Interest
• Head of Internal Audit Opinion
• Financial Consultant's review of financial management arrangements
• Pwc review of governance of group structures.

Ongoing Financial Sustainability

Reason for risk identification

The Authority is continuing to face pressure on delivering its services within the agreed budget with particular pressures with 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 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.

Proposed response to the risk

To gain assurance over this risk we are planning to:

- review the action taken to respond to our 2019/20 recommendations
- review the 2020/21 Outturn, including details of performance against both the Revenue and Capital Budgets
- review progress against the 2021-22 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.

Audit logistics and team

Planning and risk assessment

Audit committee
15th September 2022
Audit Plan

Year end audit
October/November

Audit committee
TBC
Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Audit committee
TBC
Auditor's Annual Report

Paul Dossett, Key Audit Partner

Paul will be the main point of contact for the Chief Executive, the Section 151 Officer and Members. Paul will share his 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 Audit & Governance Committee. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work.

Matt Dean, Audit Senior 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 Audit & Governance Committee, 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, Audit Manager

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.

Audited body responsibilities

Where audited bodies 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 audits. 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 agreed timetable 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 items for testing
- 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.

Audit fees

In 2017, PSAA awarded a contract of audit for London Borough of Croydon to begin with effect from 2018/19. The fee agreed in the contract was £133,102. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 26, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £347,102. This is in line with increases we are proposing at all our local audits.

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, as detailed on page 20 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been discussed with the Director of Finance. As part of its response to the Redmond Review in December 2020, MHCLG committed an extra £15m to support the delivery of local audit in 2020/21. We understand that the Council would have received a grant to support 2020/21 audit fees.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
London Borough of Croydon Audit	£152,602	£TBC	£347,102
Total audit fees (excluding VAT)	£152,602	£TBC	£347,102

Assumptions

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

- prepare a good quality set of financial statements , 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 (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2020/21 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 2020-21
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 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 valuations.
Group Accounts including enhanced group audit procedures	44,000	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.
IT Audit	£20,000	During 2019-20, IT Audit has carried out a review of the controls operating over relevant Information Technology (IT) systems. This work has identified several significant control deficiencies. During 2020-21, IT Audit have carried out another review of the controls, including following up on remediation of prior year issues and assessing the impact of findings and deficiencies on the audit approach.

Audit fee variations – Further analysis (continued)

Audit area	£	Rationale for fee variation
Value for money fee	£26,000	On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach: - A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness; - More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach; and - The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.
ISA 540	£6,000	As part of the revised ISA (UK) 540, we are required to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.
Journals testing	£7,000	Management override of controls is non-rebuttable risk under the auditing standards. As a result, this area has been under high scrutiny of the Financial Reporting Council (FRC) over the past few years. To ensure we are meeting the standards required by the FRC, we have invested in improved data analytics which allows us to analyse big amounts of data to identify highly unusual and risky journals for testing.
Reduction in Materiality	£20,000	The financial and governance issues identified during the 2019-20 audit have led to the publication of two Public Interest Reports and the initiation of a fraud investigation. Since we started the 2019-20 audit, the risk profile of the Authority has increased significantly and we are therefore required to reduce materiality. A lower materiality increases the extent of our audit testing including increased sampling.
HRA – additional procedures	£2,000	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.

Audit fee variations – Further analysis (continued)

Audit area	£	Rationale for fee variation
Quality reviews	£15,000	As a result of the substantially increased risk profile of the Authority following the 2019-20 year end, we are required to increase our level of internal reviews. This will include reviews by various of our financial reporting experts.
Prior Period Adjustments	£9,000	Although the 2019-20 audit is still ongoing, it is clear that some adjustments will be required to the opening balances of the 2020-21 draft accounts. Prior period adjustments have to go through several procedures and panels of internal reviewers before we can conclude on them.
Additional significant risks	£40,000	We normally identify around 3 – 4 significant risks on a low to moderately risky local government audit client. This is captured through the PSAA scale fee. For the Croydon 20/21 audit, we have identified 12 significant risks and as a result, there will be increased levels of work required to respond to these risks.
Revised scale fee (to be approved by PSAA)	£347,102	

Independence and 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.

The 2019/20 audit is still ongoing due to issues detailed on pages 3 – 4. However, we are satisfied that we have adequately safeguarded the self-interest threats given there are no fees that have been billed and not yet paid. We are therefore satisfied that it is appropriate to commence the 2020/21 audit. We confirm that there are no other 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 (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

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 Council's policy on the allotment of non-audit work to your auditors. 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.

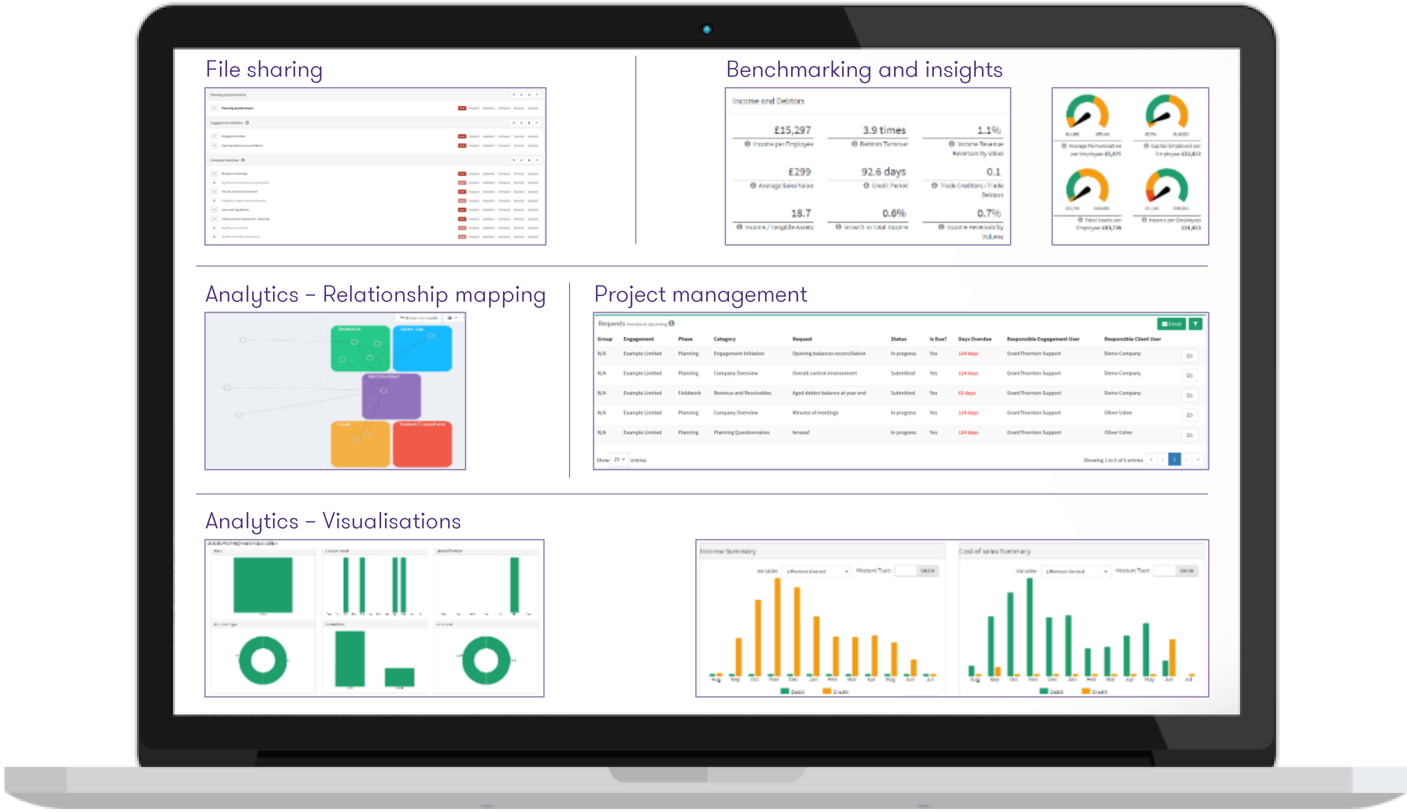
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant 2020/21	£7,000	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 £7,000 in comparison to the total fee for the audit of £347,102 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.
Certification of Housing Benefit Subsidy 2020/21	£25,000	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 £25,000 in comparison to the total fee for the audit of £347,102 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.
Certification of Teachers' Pension grant 2019/20 & 2020/21	£5,000	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 £5,000 in comparison to the total fee for the audit of £347,102 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.
Total audit fees (excluding VAT)	£37,000		

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Inflo

Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Appendix 1: Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

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