

# LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>Audit and Governance Committee</b>	
<b>DATE OF DECISION</b>	<b>30 November 2023</b>	
<b>REPORT TITLE:</b>	<b>External Audit Interim Findings Report on the 2019-20 Statement of Accounts</b>	
<b>CORPORATE DIRECTOR</b>	<b>Jane West Corporate Director of Resources (Section 151 Officer)</b>	
<b>LEAD OFFICER:</b>	<b>Allister Bannin, Director of Finance (Deputy S151)</b>	
<b>LEAD MEMBER:</b>	<b>Cllr Jason Cummings, Cabinet Member for Finance</b>	
<b>KEY DECISION?</b>	<b>No</b>	<b>Reason: N/A</b>
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>No</b>	<b>Public Grounds for the exemption: N/A</b>
<b>WARDS AFFECTED:</b>	<b>All</b>	

## 1 SUMMARY OF REPORT

1.1 This report presents three reports from the external auditors (Grant Thornton UK LLP):

- The interim audit findings report for the Council to provide an update, with the final accounts and final audit findings report expected to be presented to the next Audit and Governance Committee meeting. The interim audit findings report includes recommendations and management responses to these.
- The Value for Money Findings Report for 2019/20.
- The Audit Findings Report for London Borough of Croydon Pension Fund.

## 2 RECOMMENDATIONS

The Audit and Governance Committee is recommended to:

- 2.1 note “The Interim Audit Findings Report for London Borough of Croydon” from Grant Thornton UK LLP (Appendix 1) and the management responses to the action plan which are set out within the action plan from page 42 of the report onwards.
- 2.2 note the estimated external audit fees relating to 2019-20 as detailed in the Interim Audit Findings Report and that the final fees will be agreed with the s151

Officer and approved by Public Sector Audit Appointments (PSAA) before payment of the final fees outstanding.

- 2.3 note the “Value for Money Findings Report for 2019/20 (Appendix 2).
- 2.4 note “The Audit Findings Report for London Borough of Croydon Pension Fund” (Appendix 3).

### **3 REASONS FOR RECOMMENDATIONS**

- 3.1 The terms of reference of the Audit and Governance Committee include to “oversee the financial reporting and annual governance processes” and “to review the annual statement of accounts and specifically to consider whether appropriate accounting policies and the CIPFA Financial Management Code have been followed, and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council”.

### **4 BACKGROUND AND DETAILS**

- 4.1 The amended 2019-20 unaudited Statement of Accounts were presented to Audit and Governance Committee on 20 July 2023, together with a report explaining the key changes made to them since their publication on 19 October 2020.
- 4.2 The external audit of the 2019-20 accounts has subsequently continued and “The Interim Audit Findings Report for London Borough of Croydon” from Grant Thornton UK LLP is provided in Appendix 1.
- 4.3 Please note that the Council is still making final adjustments to the Statement of Accounts and the final accounts, with the final Audit Findings Report, are expected to be presented to the next Audit and Governance Committee meeting.
- 4.4 The Audit Findings Report includes an action plan appendix which provides recommendations as a result of issues identified during the course of the audit, and the Council’s management response to these. The auditors will report on progress on these recommendations during the course of the following year’s audit.
- 4.5 The estimated external audit fees relating to 2019-20 are detailed in the Audit Findings Report (Appendix 1). The final fees will be agreed with the s151 Officer and approved by Public Sector Audit Appointments (PSAA) before payment of the final fees outstanding.
- 4.6 In the period following the 2019-20 unaudited Statement of Accounts being presented to Audit and Governance Committee on 20 July 2023, the following key areas have been updated in the accounts:

## **Capitalisation Direction**

- 4.7** The Council received an “in principle” confirmation from the Department for Levelling Up, Housing and Communities (DLUHC) to agree a capitalisation direction for up to £126m in 2019-20, to address legacy issues. The council has used the capitalisation direction in full, taking the opportunity to remove the negative general fund balance of £3.934m, and supplement financial reserves by £3.235m.

## **Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP**

- 4.8** The accounting for Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP has remained unchanged from the accounts presented in July 2023. The resolution of this accounting was a key step for the “in principle” capitalisation direction referred to in paragraph 4.7 to be confirmed.

## **Minimum Revenue Provision**

- 4.9** A review of the Council’s Minimum Revenue Provision policy has determined the Council was not setting a prudent amount of revenue aside to repay debt in 2019-20. This has been amended to include a provision to repay debt for Investment Properties funded through borrowing, as well as borrowing to fund capital loans made to Brick by Brick. This change will add **£3.164m** to the General Fund in 2019-20, which will be funded from earmarked reserves available in 2019-20.

## **Fairfield Halls**

- 4.10** The Fairfield Halls had been accounted for and disclosed as an operational asset during the period of its refurbishment between 2016 and 2019. On review, this should have been accounted for in the Assets Under Construction category of the balance sheet, as the premises were not open to the public. This amendment will have implications on asset revaluation changes made for the Halls, as well as the removal of depreciation charges that were applied whilst the asset was not operation. It will therefore require the majority of financial disclosures in the 2019-20 statement of accounts to be updated. This change will be applied into the Statement of Accounts once the audit review of the proposed accounting changes is completed. There will be no impact on the council’s usable balances or reserves as a result of this amendment.

## **Subsequent Events**

- 4.11** The disclosure of subsequent events in the 2019-20 Statement of Accounts has been expanded upon, including reference to both Reports in the Public Interest, Section 114 notices and the status of Brick by Brick.
- 4.12** The table below sets up the cumulative impact of the changes to the 2019-20 accounts on the Council’s General Fund position.

## Capitalisation Direction Applied to 2019-20 Accounts

Reason for change	Accounts July 2023 (£000's)	Accounts November 2023 (£000's)
Transformation expenditure removed	73,078	73,078
Credit loss for bad debt	28,872	28,872
Reduction in recharge to HRA	10,173	10,173
Cumulative MRP	3,544	6,708
Increase in General Balances	3,934	3,934
Increase in Earmarked Reserves	6,399	3,235
<b>Total Capitalisation Direction applied to 2019-20 accounts</b>	<b>126,000</b>	<b>126,000</b>

## 5 ALTERNATIVE OPTIONS CONSIDERED

5.1 None.

## 6 CONSULTATION

6.1 None.

## 7. CONTRIBUTION TO COUNCIL PRIORITIES

7.1 This report supports the Mayor's Business Plan 2022-2026 objective one "The council balances its books, listens to residents and delivers good sustainable services".

## 8. IMPLICATIONS

### 8.1 FINANCIAL IMPLICATIONS

8.1.1 A capitalisation direction of £126m is required in 2019-20, which must be repaid by the General Fund over a period of 20 years.

8.1.2 The external audit fees by Grant Thornton UK LLP will be funded through revenue budget and earmarked reserves (including the Opening the Books reserve).

Comments approved by Allister Bannin, Director of Finance (Deputy s151 Officer).

## **8.2 LEGAL IMPLICATIONS**

**8.2.1** The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Monitoring Officer that under Section 3 of the Local Audit and Accountability Act 2014, the authority must keep adequate accounting records, and must prepare a statement of accounts in respect of each financial year.

**8.2.2** Regulation 7 of the Accounts and Audit Regulations 2015 ('the Regulations') requires the authority's statement of accounts to be prepared in accordance with the Regulations and proper practices in relation to accounts.

**8.2.3** Regulation 9 sets out the requirements for the signing and approval of the statement of accounts. In particular regulation 9(2) provides that subject to the requirements of regulation 9(3) and following conclusion of the period of exercise of public rights in regulation 14 the Council must in the following order:

- (a) Consider either by way of a committee or by members as a whole the statement of accounts;
- (b) Approve the statement of accounts by a resolution of that committee or meeting; and
- (c) Ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given.

Regulation 9(3) requires the responsible financial officer to re-confirm on behalf of that authority that they are satisfied that the statement of accounts presents a true and fair view of:

- (a) the financial position of the authority at the end of the financial year to which it relates; and
- (b) that authority's income and expenditure for that financial year, before that authority approves it.

**8.2.4** The terms of reference of the Audit and Governance Committee include to "oversee the financial reporting and annual governance processes" and "to review the annual statement of accounts and specifically to consider whether appropriate accounting policies and the CIPFA Financial Management Code have been followed, and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council".

**8.2.5** The authority is also under a general duty "to make arrangements for the proper administration of their financial affairs" under Section 151 of the Local Government Act 1972.

**8.2.6** In addition, keeping adequate accounting records, and following proper practices in relation to accounts may impact on the authority's ability to deliver its functions in a manner which promotes economy, efficiency, and effectiveness, and therefore the consideration of this report also seeks to demonstrate the authority's compliance with its Best Value Duty under the Local Government Act 1999. In this regard, Members attention is specifically drawn to the findings in Appendix 2 "Value

for Money Findings Report for 2019/20” which set out in summary that: “On the basis of the significance of the matters we identified with your levels of reserves, the governance of the Council’s Alternative Delivery Models, the financing of the Council’s Group Structures, the issues within the refurbishment of Fairfield Halls and the condition of the Council’s Housing Stock, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore propose to give a qualified 'adverse' conclusion.”

Comments approved by Jane West, Corporate Director Resources and Section 151 Officer, 24/11/2023.

### **8.3 HUMAN RESOURCES IMPLICATIONS**

**8.3.1** There are no immediate HR implications arising from the content of this report. Should any matters arise, these will be managed in line with the appropriate Council policies and procedures.

Comments approved by Dean Shoesmith, Chief People Officer, 22/11/2023.

### **8.4 EQUALITIES IMPLICATIONS**

**8.4.1** The Council has a statutory duty to comply with the public sector equality duty set out in section 149 of the Equality Act 2010. The Council must therefore have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

**8.4.2** Failure to meet these requirements may result in the Council being exposed to costly, time consuming and reputation-damaging legal challenges.

**8.4.3** This report is exempt from an EQIA as it does not affect service delivery and is not a key decision item.

Comments approved by Naseer Ahmed for Equalities Programme Manager, 22/11/2023.

## **9. APPENDICES**

- 9.1** Appendix 1 - The Interim Audit Findings Report for London Borough of Croydon  
Appendix 2 - Value for Money Findings Report for 2019/20  
Appendix 3 - The Audit Findings Report for London Borough of Croydon Pension Fund

## **10. BACKGROUND DOCUMENTS**

- 10.1** None.