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Audit & Governance Committee

Meeting of held on Thursday, 31 October 2024 at 6.30 pm in Council Chamber, Town Hall, Katherine Street, Croydon, CR0 1NX

MINUTES

Present: Dr Olu Olasode (Independent Chair) ;
Councillor Matt Griffiths (Vice-Chair);
David Clarke (Independent Member);
Councillor Claire Bonham, Simon Brew, Sean Fitzsimons,
Enid Mollyneaux, Ria Patel and Nikhil Sherine Thampi

Also Present: Councillor Leila Ben-Hassell and Jason Cummings

PART A

103/24 **Disclosure of Interests**

There were none.

104/24 **Minutes of the Previous Meeting**

The minutes of the meeting held on 19 September 2024 were approved as an accurate record of proceedings.

105/24 **Urgent Business (if any)**

There were none.

106/24 **Committee Action Log**

Dave Phillips, Head of Internal Audit advised the Committee of the approach towards compliance improvement around Internal Audit as detailed within the action log update. The Committee discussed the provision of further data around longstanding and unimplemented Internal Audit actions. It was agreed that this data would be made available in the next Internal Audit Progress Report and that officers would discuss the format and content of this in preparation for the report.

It was advised an Internal Audit focus week has been undertaken by the Corporate Management Team (CMT) and that following the previous committee meeting in October 2024 the Independent Chair had attended the council's Statutory Officers Board meeting and the Committee's concerns regarding Internal Audit performance had been raised. Officers advised that CMT were aware of the Committee's concerns and had been focusing on clearing the backlog of Internal Audit actions and making improvements.

Councillor Jason Cummings, Cabinet Member for Finance noted it was positive to see the committee driving performance improvements within the council.

107/24

Committee Work Programme 2024/25 & Committee Assurance Mapping Document

The Committee considered the updated Committee Work Programme 2024/25 and Committee Assurance Mapping Document.

The Audit and Governance Committee **RESOLVED:**

2.1 To note the approach taken to develop the Audit & Governance Committee's work programme for 2024/25 in line with the Improvement and Assurance Panel's recommendation.

2.2 To consider and approve the Audit & Governance Committee's Work Programme for 2024/25, Appendix A.

2.3 To identify any other items that the Committee require to be added to the Work Programme for 2024/25.

2.4 To note the Committee's Assurance Mapping Document, Appendix B

108/24

Financial Statements / Accounts Update: 2020/21 Audit Findings Report

Jane West, Section 151 Officer and Corporate Director of Resources provided an update on the 2019/20 financial accounts. The council was collating a pack of information for sign off by the Improvement and Assurance Panel (IAP) ahead of submission to MHCLG, to agree the council's capitalisation direction. Officers had discussed the process with MHCLG and it was hoped the sign off would come relatively quickly. It was noted the Committee had delegated authority to the Corporate Director and Independent Chair of the Audit and Governance Committee to submit the letters of representation. Due to the outstanding Kroll report the external auditors would not provide a certificate for the 2019/20 accounts, however the council would be in a good position to have a finalised and audited set of 2019/20 financial statements.

Allister Bannin, Deputy Section 151 Officer and Director of Finance noted the introduction of the government backstop for local authority auditing of accounts. Accounts up to 2022/23 now had an audit deadline of 30 December 2024. This had meant the council had decided to cut short the audit work for 2020/21 and the report detailed the work completed.

Updated accounts for 2020/21 would be received at the next meeting of the Committee for approval, along with the management letter of representation and the disclaimer audit opinion. The draft 2021/22

accounts had been published today on the council's website, which allowed for public inspection before the backstop date in December. These would also be brought to the following meeting for approval.

Stuart Frith, Grant Thornton introduced the report noting owing to the government backstop the external auditors were required to report on the progress made to date. A summary of key points as set out in Section 2: Financial Statements of the report was provided and it was noted that whilst the audits were not complete, some assurances could be taken from the findings.

The Committee queried where in some cases no evidence was provided or available, whether this was due to officers being obstructive or due to time constraints. Concerns were raised around the gaps in information.

Grant Thornton advised in some cases the auditors had run out of time due to capacity and in others, the Finance Team had sought information which had not come back quickly in part due to changes in council staff. It was not felt that officers had been obstructive.

Issues identified in the 2019/20 accounts and the subsequent high inherent risk had informed the requirement for a higher audit sample size. Officers reassured the Committee of the transparent approach taken and that where information was unavailable, this was often due to staff turnover.

The intention to ensure the completion of a full audit for 2024/25 following the backstop was noted.

The Committee noted the situation was due to the government's legislation and queried the value added by the completion of historical external audits for both the organisation and Croydon residents. It was also asked what role the Committee would play in scrutinising the 'backstopped' years' accounts.

Officers advised the value of an external audit was to provide a solid accounting foundation. It was anticipated that the accounts subject to the government backstop would present challenges, particularly in establishing the opening balances for the 2024/25 audit. It would have been the preference to complete Croydon's accounts in full to provide assurance, however this was not allowed under the backstop legislation.

Officers reassured the Committee that the council had worked through the 2021/22 accounts carefully and were content with the published information. For 2022/23 the accounts would be signed off late due to the requirement for the 30-day public inspection. For 2023/24 it was expected the backstop would be missed by around a month due to the public inspection requirement. The focus would then be on the 2024/25 accounts and audit. It was advised that the Committee could hold the council to account regarding audit deadlines and request reporting on the work to

complete the 2024/25 accounts, particularly the process to reach opening balances.

Grant Thornton advised 2019/20 provided value as a completed audit, as whilst there was a disclaimed opinion, the accounts were materially accurate. The subsequent years (2021/22 2022/23 and 2023/24) would have no assurance from an audit perspective. The backstop for the 2024/25 accounts was February 2026, providing for a long period of time to carry out the audit process.

A key issue was the approach regarding opening balances for 2024/25. It was advised the government's plan was to restore full assurance by March 2026 and Grant Thornton were awaiting any guidance from the government on the approach. It was expected that over 50% of local authorities would have 'backstopped' accounts and that it would take four to five years to recover fully, with the disclaimer audit opinions reducing each year.

It was agreed that progress reporting on the external audit activity throughout 2025 would be useful for the Committee.

Officers advised the 2023/24 Value for Money audit would be reported to the next meeting of the Committee and this report would illustrate the financial governance improvements which had been implemented.

Councillor Jason Cummings, Cabinet Member for Finance noted the council's loss of public confidence during the years following 2019 and emphasised that it would have been the council's preference to complete the accounts in full. The backstop would however, allow the council to provide narrative and assurances around the current improvements earlier than had it not been in place.

The Committee requested assurances on staff competency and further information regarding officer's comments and confidence regarding the 2021/22 accounts.

In response, officers advised the 2020/21 accounts had been revised following their first publication in August 2021, the key issues had been in 2019/20 and subsequent years had been more straightforward. Assurance had also been provided as two separate teams of accountants had been working on 2020/21 and 2021/22 with liaison and crosschecks between the two. The financial systems improvement to Oracle was also now in place.

Officers advised of concerns that audit sample sizes for 2024/25 would be extremely large and that it was useful to know the government was considering the approach to this.

The Committee queried the approach to promote the public audit period to residents, beyond the publication of the accounts on the council's website. Officers agreed to consider public communications noting the publication

of the accounts was a good news story and agreed to provide an update at the next meeting.

The Committee raised concerns around the non-completion of samples and did not feel the report provided any positive assurance.

Grant Thornton agreed that the level of assurance was limited.

The Committee RESOLVED to:

2.1 note "The Audit Findings for London Borough of Croydon" from Grant Thornton UK LLP (Appendix 1) for the 2020-21 Statement of Accounts and the management responses to the action plan which are set out within the action plan from page 52 of the report onwards.

2.2 note the "Audit progress report and sector update October 2024" (Appendix 2) from Grant Thornton UK LLP.

109/24

Scrutiny & Overview Committee Annual Report

Councillor Leila Ben-Hassel Chair of Scrutiny and Overview Committee introduced the report and advised that during the previous year the Scrutiny and Overview Committee had focused on the council's finances, scrutinising the council's 2023/24 in-year financial position and development of the 2024/25 budget. Several deep dives had been undertaken by the Scrutiny Sub -Committees and Transformation had also been a key area for the Committee. It was noted the council's Adult Social Care department had managed demand well. Scrutiny had also looked at the council's Equalities strategy, People and Cultural Transformation strategy and the Tackling violence against women and girls delivery plan.

The council's challenging in-year financial position was noted, both in light of pressure to close the overspend gap and balance the 25/26 budget. The continued use of capitalisation direction had demonstrated the continuing fragile financial position and raised concerns around service delivery.

Looking forward, it was the intention for the council's Scrutiny function to engage in strategic work earlier in the process.

The Committee noted the strengthening joint working between the Audit & Governance Committee and Scrutiny, in line with recommendations from the external auditors. Thanks were extended to the Chair of Scrutiny and Overview Committee for their attendance.

Councillor Jason Cummings, Cabinet Member for Finance advised the effective Scrutiny and Audit Committee structures now in place at Croydon had been shared with the other local authorities at a recent LGA training event.

It was suggested that the Chair of Scrutiny and Over Committee could join the Audit & Governance Committee's March 2025 meeting when it would consider the 2025/26 Committee Work Programme, Internal Audit plan and Risk Management Strategy.

In response to questions, it was advised the two Chairs intended to meet on a quarterly basis.

The Audit & Governance Committee **RESOLVED:**

1. To note the Annual Report of the Scrutiny & Overview Committee.

110/24

Oracle Improvement Programme Update

Alan Layton, Senior Responsible Officer for the Oracle Improvement Programme introduced the report noting the Committee had previously requested an update on the improvements and officers were present to provide demonstrations of the new systems.

Officers provided presentation demonstrations of the HR, Expenses and Supplier Self-Registrations modules within Oracle.

The Committee thanked officers for their demonstrations of the system improvements.

In response to questions, it was advised two step authentication security was in place for suppliers to log into their account.

The Committee noted the risks identified regarding staff not using the system correctly and queried whether any work had been done to identify people circumventing systems on purpose. Offices advised the approach had been to adopt not adapt and it was the intention to fully adopt best practice with no customisation.

The Committee queried the implementation timeline for the programme and whether a support helpline was available for users. It was also asked what control arrangements were in place around registration and if there were processes to remove company data from the system when no longer required.

Officers advised the key milestones within the programme were set out in the highlight report, with implementation taking place in waves until December 2025. Progress and compliance would be monitored via key performance indicators (KPIs) and would identify any further training needs.

Data cleansing work was included in the Procurement and contract management improvement programme and this would be ongoing. The

need to ensure the system was kept up-to-date and the data clean was noted.

It was the intention to introduce payment limits to suppliers, in line with contract values to manage risks.

Dedicated change managers within the Oracle steering group were leading on staff communications and training. Each module demonstrated at the meeting was now live, with new functionalities being implemented on an approximately 12-weekly basis. A lunch and learn session had taken place around the new HR module functionalities and had attendance of 350 staff.

The Committee requested ongoing monitoring and reporting of cultural change, particularly in regard to appraisals. Officers advised of the intention to introduce all recruitment processes including appraisals into the Oracle system, as part of the next phase of improvements due to be completed by June 2025. Increased return to work meeting completions had already been realised following the introduction of the sickness reporting functionality.

In response to a question about the reliability of the systems, it was advised improvements to functionality ensured for no down time, for example managers were now able to log staff sickness throughout the month.

It was questioned how the Oracle improvement work was aligned with the council's Housing transformation and improvement work and also how the Committee could seek assurance around shifting culture.

Officers advised KPI dashboards to monitor and report data from the system were being developed and could be reported in future to the committee to demonstrate financial, cultural and compliance improvements. The Committee welcomed the introduction of data dashboards noting previous challenges and collating this information.

Councillor Jason Cummings, Cabinet Member for Finance advised the Oracle adaptations seen in Birmingham Council had caused their issues. Croydon had chosen to fully adopt Oracle's processes, which created stability and consistency in the processes and data.

It was asked whether the user self-assignment risk highlighted in the external auditor's report had been dealt with and if other similar areas of risk within the system were being closely monitored.

In response it was advised that modelling was being developed to ensure the correct controls were in place for journals, including detection and prevention mechanisms. Improving compliance was an important part of the improvement program and the risk management cloud module was expected to be implemented by the end of the month. This would provide

controls around self-approval of journals and could be further developed to monitor and track areas of risk.

In response to a request for further information, it was advised an Internal Audit on Expense Claims had been undertaken three years ago and had received a 'no assurance' opinion due to several compliance issues. The Oracle system had purposely been designed to only accept non-taxable expenses and new parameters had been incorporated to ascertain which claims required internal audit oversight. It was the intention for HR to own and oversee expenses claims in the near future.

Oracle improvements were integrated with the NEC housing system with some integrations still being developed. Officers advised this interface would be prioritised.

The Audit & Governance Committee **RESOLVED** to:

2.1 Note the progress of the Oracle Improvement Programme as set out in Appendix A.

2.2 Note the latest improvements to the design and function of the Oracle system.

111/24

Dedicated Schools Grant Deficit Management Plan Update

Shelley Davies, Director of Education introduced the report, advising the council remained on track in relation to the in-year budget as set out in Table 1 of the report. The approach to support for children with special educational needs and disabilities remained focused on early intervention and increasing provision within the borough.

The Committee welcomed the progress made and asked what risks existed outside of the council's control that could impact the programme. Officers advised demand from children who may come into the system was difficult to predict. Also increases to costs for independent schools outside of the borough and the instances where provision was not available within the local authority. However, these risks were factored into the plan and strategy of early intervention and increased provision in the borough. Collaboration with neighbouring local authorities also helped to ensure there were ceiling costs in place for out of borough independent school places. It was noted that the service was ahead of targets for 2024/25.

Councillor Jason Cummings, Cabinet Member for Finance commended the good work done by the department and advised of a potential national push by government to utilize the increase SEND budget to mitigate the DSG position. The council needed to remain aware of this to ensure it was not disadvantaged by having undertaken work to rectify the DSG

position. Figures from the LGA stated the cumulative deficit was currently £3.2 billion and expected to rise to £5 billion by 2026.

The Audit & Governance Committee **RESOLVED** to note:

- a) The key performance targets set under the DfE Safety Valve (SV) agreement.
- b) The overall performance of the Deficit Recovery Plan against the target (including the 2023/24 outturn) and challenges and delivery risks.
- c) The impact of the required accounting treatment in respect of the DSG deficit as detailed in section 7.
- d) The risks highlighted in paragraphs 8.2 to 8.7.

112/24

Exclusion of the Press and Public

This was not required.

The meeting ended at 8.43 pm

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