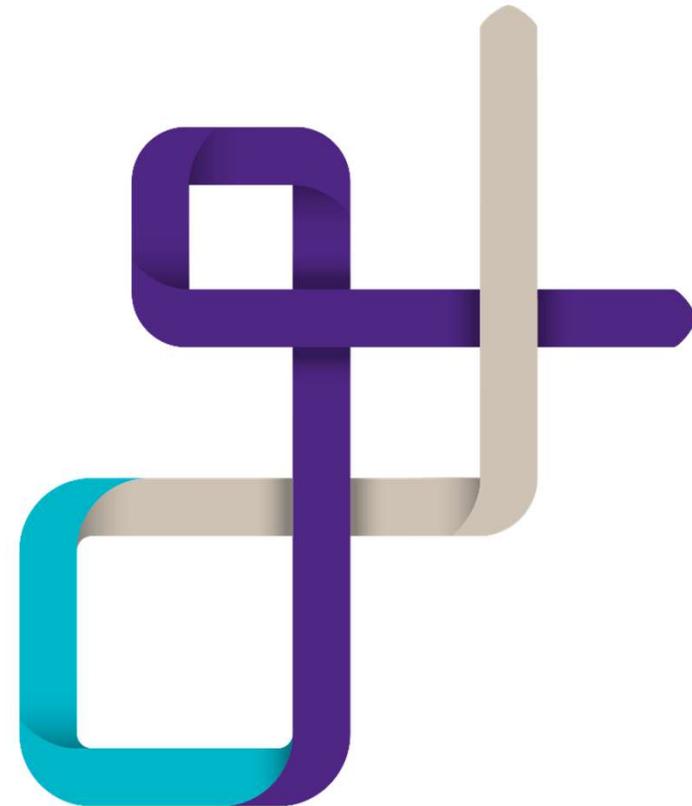


This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Progress report

Year ending 31 March 2020

London Borough of Croydon
December 2020





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1. External Audit Summary

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General update:

Early Testing and Planning/Risk assessment audit visit

In February 2020, we performed risk assessment and planning procedures where we undertook:

- inquiries with management, in-house legal and internal audit.
- performed walkthroughs of significant risk areas and assessed the design effectiveness of key controls relating to significant risk areas. No significant control deficiencies were noted during our walkthrough process however we note some deficiencies which are set out within our findings to date later in this report (see page 5).
- early testing for months 1-9 transactions on areas such as journals, income, expenditure and payroll. This work was ongoing when the 'stay at home' guidance was issued by the government as a result not all staff were available and not all evidence was made available to audit to complete all sample testing at that time. This is being completed during the year-end audit.

Year End audit

The Council's financial position and subsequent public interest report and Section 114 notices combined with the global pandemic required our audit planning and risk assessment to be revisited. Additional significant risks were identified and our assessment of audit materiality was reduced. We issued an Audit Plan addendum which presented at the General Purposes and Audit Committee meeting on 2 December 2020. The impact of this is increased sample sizes and we have included a summary of the sample sizes in section 2 of this report.

The draft financial statements were submitted to audit on 16 October 2020 with the large majority of working papers not being made available to audit until week commencing 26 October and 2 November with some working papers being provided in early December with a small number remaining outstanding to date. This has created delays in the audit.

Impact of COVID-19

From the commencement of the year end audit, both the finance team and the audit team have worked remotely to ensure safe social distancing in line with government guidance. We have been working closely with your finance team to mitigate the impact this has on the progress of the audit by obtaining electronic audit evidence remotely for inspection and observation of evidence and systems through use of Microsoft Teams share screen function, however this method of remote working can result in a time-consuming process to obtain and view audit evidence which is contributing to some delay in progress of the audit. COVID-19 continues to be an ever-changing issue and we plan to work closely with your finance team to respond to these as they arise.

2. Audit Sample Progress Update

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As part of year end testing we have selected a number of samples in various areas in order to obtain assurance over material and other high risk transactions and balances within the financial statements. We have highlighted the increase in sample sizes from the prior year as a result of additional significant risks and reductions in audit materiality within the table below alongside an update on progress on sample testing.

Audit Area	2018/19 Sample Size	2019/20 Sample Size	No of samples cleared	No of samples with outstanding queries with client or auditor processing	No of samples where no evidence has been received
Revenues (occurrence/accuracy)	41	157	14	27	116
Revenues (completeness)	18	80	13	60	7
Grant Revenues (occurrence/accuracy)	13	40	23	15	2
Operating Expenditure (occurrence/accuracy)	61	145	61	26	58
Operating Expenditure (completeness)	25	120	0	39	81
Transformation Expenditure	5	15	0	0	15
Payroll (Council)	N/A*	27	12	15	0
Payroll (Schools)	14	30	0	22	8
Long Term Payables	2	8	0	0	8
Short Term Payables	33	51	0	26	25
Long Term Receivables	20	38	0	9	29
Short Term Receivables	14	21	0	1	20
Journals	150	152	26	70	56

*sample approach was not taken in 18/19, audit performed a substantive analytical review

3. Early Testing Findings

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As part of our risk assessment and planning and early testing work performed in February we identified some control findings in relation to journals testing and testing of payroll, these are set out in further detail below:

1. Self authorisation of journals

We have identified from our journals testing that a number of journals have been initiated and posted by the same individual. Although our testing showed that none of these journals were indicative of fraud, there is a control weakness that could give rise to the posting of inappropriate journals where no automated control or separate review is in place to ensure that a separate individual posts the journal from the individual who initiated the journal.

No material issues were identified from our journals testing performed at early testing however the above constitutes a control weakness which will be presented within our audit findings report.

2. Inaccurate FTE data

As part of our early testing of payroll, we identified that Full Time Equivalent (FTE) reports provided were inaccurate. As an example, an individual who was a contractor and not London Borough of Croydon staff, they were included within the FTE report as they were required to be input onto 'myresources' (HR) system in order to access the finance and ledger systems to perform migration of data work. The input of FTE should have been included as 0 on the HR system however had been input as 1 and therefore was input incorrectly. We were unable to gain assurance that the residual individuals included in the FTE reports were included correctly and therefore we were unable to use the FTE report as a key source for our planned audit approach (substantive analytical review) and we revised our audit approach to substantive sample testing of individual council staff.

No material issues were identified from our payroll testing performed at early testing however the above constitutes a control weakness which will be presented within our audit findings report.

Conclusion

We have altered our planned audit approach as deemed necessary based on the findings above to respond to risks resulting from control weaknesses identified. A formal recommendation will be presented in our audit findings report alongside management responses on all control weaknesses identified during the course of the audit.

4. Significant matters

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An update on progress on the significant audit risks identified and communicated to you via the Audit Plan and Audit Plan addendum is found below

Area	Work undertaken	Progress	Findings to date
Management override of control - journals	<ul style="list-style-type: none"> risk assessment procedures and walkthroughs over the journals process selected a sample of journals we consider to be high risk and unusual. Reviewing evidence provided to ensure journals have appropriate supporting documentation to support the journal posted, the journal has been accounted for appropriately, the journal is subject to a two stage authorisation process and that there is no risk of fraud within the posted journal. 	<p>26 journals testing complete 70 journals in progress 56 journal evidence awaited</p>	<p>A number of journals have been initiated and posted by the same individual and therefore has not been subject to a two stage authorisation process which is an important internal control.</p> <p>Review of the self-authorized journals to date has shown that the journals have been accounted for correctly and have supporting evidence to support the posting of the journal. There remains a risk that journals are not subject to appropriate review and therefore there is a risk that fraudulent or inappropriate journals could be posted onto the finance system</p>
Valuation of land and buildings	<ul style="list-style-type: none"> walkthroughs over the valuation process for land and buildings to confirm whether key controls have been designed and implemented appropriately engaged our external expert who has been reviewing your valuer's year end valuation reports 	<ul style="list-style-type: none"> reviewing the outcomes/findings of our external expert. selecting a sample of assets and testing to ensure valuation method's and assumptions used by your expert are appropriate, data sent to your expert is complete and accurate and that valuation movements have been appropriately recorded within the financial statements. 	<p>We have not currently identified any material issues at the date of drafting this report.</p>

4. Significant matters (continued)

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Area	Work undertaken	Progress	Findings to date
Valuation of pension liability	<ul style="list-style-type: none"> walkthroughs over the valuation process for the pension fund net liability to confirm whether key controls have been designed and implemented appropriately. 	<ul style="list-style-type: none"> currently testing the data that you have sent to your actuary to ensure data sent for valuing the pension fund net liability is complete and accurate. reviewing your experts (the actuary's) assumptions against our expert (PWC) to ensure assumptions made by your expert in valuing the pension fund net liability is appropriate Liaising with your actuary to gain assurance over the material other experience item Liaising with our internal pensions team to gain assurance over the unfunded benefits within your pension liability 	We have not currently identified any material issues at the date of drafting this report
Valuation of investment properties	<ul style="list-style-type: none"> walkthroughs over the valuation process for investment properties to confirm whether key controls have been designed and implemented appropriately engaged our external expert who has been reviewing your valuer's year end valuation reports 	<ul style="list-style-type: none"> reviewing the outcomes/findings of our external expert. selecting a sample of assets and testing to ensure valuation method's and assumptions used by your expert are appropriate, data sent to your expert is complete and accurate and that valuation movements have been appropriately recorded within the financial statements. 	We have not currently identified any material issues at the date of drafting this report.

4. Significant matters (continued)

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Area	Work undertaken	Progress	Findings to date
Transfer of property assets from the Council to the pension fund	<ul style="list-style-type: none"> We have confirmed verbally with management that the transfer of properties from the Council to the pension fund did not occur in the 2019/20 financial year and has not yet occurred at the date of drafting this report. 	<ul style="list-style-type: none"> We are awaiting written confirmation 	The written confirmation is needed for us to conclude whether this remains a significant audit risk to the financial statement audit for 2019/20
Incomplete or inaccurate financial information transferred to the new general ledger	<ul style="list-style-type: none"> walkthroughs over the transferring of data from the legacy Oracle finance system to the new Oracle Cloud finance system to confirm whether key controls have been designed and implemented appropriately engaged our internal IT experts who have performed an IT general controls audit 	<ul style="list-style-type: none"> Testing the general ledger transfer reviewing the reconciliations that all financial information was transferred completely and accurately 	Detailed findings are at section 5
Implementation of IFRS 16 on Leases	<ul style="list-style-type: none"> The implementation of this standard has been delayed 		This is no longer a significant risk for 2019/20

4. Significant matters (continued)

DRAFT

Area	Work undertaken	Progress	Findings to date
Covid-19	<ul style="list-style-type: none"> Discussions with management on how the pandemic has impacted the ability to prepare financial statements and update financial forecasts Revisited planning and risk assessment in the light of the pandemic 	<ul style="list-style-type: none"> Reviewing the adequacy of disclosures in the financial statements Using Microsoft Teams share screen function and file sharing software (Inflo) to obtain and view audit evidence remotely and securely Evaluating whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances Awaiting management's going concern assessment to assess the assumptions that underpin revised financial forecasts 	We have not currently identified any material issues at the date of drafting this report
Revenue includes fraudulent transactions (income from fees and charges and other service income)	<ul style="list-style-type: none"> walkthroughs over the Group and Council's system for accounting for income (fees and charges) to confirm whether key controls have been designed and implemented appropriately 	<ul style="list-style-type: none"> Selected a sample of 157 transactions with 14 cleared, 27 in progress and 116 awaiting audit evidence Evaluation the group and council's accounting policy for recognition of income from fees and charges and other services for appropriateness 	We have not currently identified any material issues at the date of drafting this report

4. Significant matters (continued)

DRAFT

Area	Work undertaken	Progress	Findings to date
<p>Expenditure includes fraudulent transactions (Completeness of operating expenditure and associated payables balances)</p>	<ul style="list-style-type: none"> walkthroughs over the Group and Council's system for accounting for operating expenditure and payables to confirm whether key controls have been designed and implemented appropriately Discussions with management on how the pandemic has impacted the ability to prepare financial statements and update financial forecasts Revisited planning and risk assessment in the light of the pandemic 	<ul style="list-style-type: none"> Selecting a sample of transactions incurred in year and payable balances held at year end Reviewing the corporate adjustments made at year end in particular <ul style="list-style-type: none"> Transformation expenditure - £29 million has been capitalised in 2019/20 of which £14 million was capitalised in period 13 and 14. Sample of 15 selected and we are awaiting evidence Bad debt provisions have decreased and we are awaiting working papers to support how the provision was calculated and the underlying assumptions Provisions and contingent liabilities – we have raised a number of queries and are awaiting management responses Minimum Revenue Provision (MRP) policy changed in 2019/20 and we are reviewing the working papers provided to gain assurance that a prudent MRP charge has been made 	<p>We have not currently identified any material issues at the date of drafting this report</p>

4. Significant matters (continued)

DRAFT

Area	Work undertaken	Progress	Findings to date
Accounting for transactions relating to the Emergency Temporary Accommodation (ETA) scheme	<ul style="list-style-type: none"> walkthroughs over the Council's processes and controls relating to ETA schemes and transactions Reviewed the recommendations and findings raised by the pwc report and have tailored our audit approach accordingly Engaged our internal experts who are reviewing the transactions 	<ul style="list-style-type: none"> Challenged management on the legal view the Council has taken on the impact of the lease agreements held and accounting treatment of ETA transactions in relation to the dissolved company London Borough of Croydon (LBC) Holdings LLP which holds the Council's 10% stake in the companies where the ETA transactions take place. Management is seeking this legal advice Requested management's assessment of the group boundary regarding all group interests held and management's judgement regarding the consolidation and non consolidation of group entities together with evidence to support the judgements. Without receiving the information in the above two bullet points, we are unable to progress our audit work in this area 	<ul style="list-style-type: none"> Processes and controls rely heavily on a limited number of individuals and staff turnover has reduced knowledge on the controls and processes in place. We will make recommendations on this in our audit findings report

5. IT General Controls Audit - Findings

DRAFT

As part of our annual review of IT general controls we engaged our internal IT experts to review the Oracle Cloud system and Northgate system as key systems that impact on the financial statements, the findings of their work has been communicated to management and is summarised below.

Executive Summary

To support its opinion on the financial statements of Croydon London Borough Council (LBC), Grant Thornton has completed the design effectiveness of the IT General Controls (ITGC) within the IT environment, as they affect the financial statements for year-ended 31st March 2020. During the IT Audit visit, we also completed an Oracle authorisation and security design review to help provide assurance over Oracle controls for the financial statements.

The audit of the Oracle system at Croydon LBC was a limited scope review.

The matters raised in the report came to our attention as a result of the limited scope Oracle & ITGC design review and are matters that we believe needed to be brought to your attention. Therefore, our comments cannot be expected to include all possible control improvements in Croydon LBC's Oracle system that a more wide-ranging engagement might identify.

Findings- Oracle Security and Access Controls

No.	Deficiency	Recommendation	Management Response
1	Segregation of duties conflicts between Oracle system administration, developer, and finance roles	<p>We recommend management consider reviewing the elevated access assignment and, where possible, restricting Oracle administrator access to members of the IT department only with all conflicting finance responsibilities being removed from System administrator accounts.</p> <p>Should management choose to accept the risks associated with the system administrators and finance conflicts, formalised and documented controls should be implemented to monitor the use of system administrator access. This monitoring should be achieved through after-the-fact reports listing management approval for the actions (e.g., transactions posted, queries executed, records updated) performed. Given the criticality of data accessible through financially critical systems, logs of information security events (i.e., login activity, unauthorized access attempts, access provisioning activity) created by these systems should be proactively and formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.</p>	<p>We have reviewed the information provided by the auditor. We found that all the users listed are either system accounts or members of the support and implementation team. We have ended the implementation user accounts. Given the nature of these roles the identified conflicts will exist. We will investigate options to implement appropriate formalised and documented controls to monitor system administrator and support team access. We will present a paper for the My Resources Board to review and consider options, as part of the agenda item on risks, at their meeting in November.</p>

5. IT General Controls Audit – Findings continued

DRAFT

As part of our annual review of IT general controls we engaged our internal IT experts to review the Oracle Cloud system and Northgate system as key systems that impact on the financial statements, the findings of their work has been communicated to management and is summarised below.

No.	Deficiency	Recommendation	Management Response
2	Oracle system configuration access granted to an excessive number of users, including non-IT staff / end users	<p>Management should consider reviewing all users with system configuration capabilities assigned and, where possible, removing this from end users / limiting this access to members of IT department.</p> <p>Should management choose to accept the risks associated with this access being granted to end users from outside of IT, formalised and documented controls should be implemented to monitor the use of this ability.</p> <p>This monitoring should be achieved through after-the-fact reports listing management approval for the actions performed.</p>	<p>The task of reviewing users with system configuration capabilities is a significant undertaking therefore the approach we intend to take is to investigate options to monitor system configuration changes. We will present a paper for the My Resources Board to review and consider options, as part of the agenda item on risks, at their meeting in November.</p>
3	Users self-assigning responsibilities without formal management approval	<p>Where administrative staff require additional functionality, they should be required to request this through the formal change management procedures. Any such access granted should be end-dated accordingly.</p> <p>Management should implement monitoring controls to identify instances where members of staff have assigned themselves additional responsibilities and any non-compliance with the abovementioned process investigated.</p>	<p>1) We have identified that there has been assignment of forecast approver roles within the projects module by project managers. We will review appropriate controls with Finance and Oracle.</p> <p>2) The majority of self-assignment occurred during or just after implementation. We have now removed access to the IT security manager role from 3rd Party support staff.</p> <p>3) We will restate the message that that the internal My Resources support team must not self-assign roles and must follow the normal user access request process if they require additional responsibilities. We will also introduce monitoring controls via a report to identify instances where members of staff have assigned themselves additional responsibilities and any non-compliance. This report will be sent to the Head of Finance and HR Service Centre for review and investigation of any non-compliance.</p>

5. IT General Controls Audit – Findings continued

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As part of our annual review of IT general controls we engaged our internal IT experts to review the Oracle Cloud system and Northgate system as key systems that impact on the financial statements, the findings of their work has been communicated to management and is summarised below.

Findings- IT General Controls Oracle Cloud

No.	Deficiency	Recommendation	Management Response
1	There is an excessive number of Admins on the system and no evidence was provided to identify them	Management should formally review the system administrators access to the network and restrict this access only to appropriate users. Apply a least privilege basis to all users to ensure users have appropriate access and any additional access required is documented and approved.	A formal review was started in 03/2020, We look at 235 domain admin users, 626 Server admins users. The results of this review prompted the Littlefish 'AD Health Check' of which, there is a full remediation proposal awaiting to be approved. In addition, we have recently extended to our review to 172 admin accounts in O365/Azure. Lastly, a 'Privileged Group Access Standard' was created to minimise the amount of privileges accounts we have and define an approval process.

Findings- Northgate i-World

No.	Deficiency	Recommendation	Management Response
1	No Monitoring of Third-Party Activities	Management should implement controls around how the vendor gains access to the production environment. This can be achieved by enabling and disabling access when it is required by the vendor to apply approved change into the production system. Management should also consider reviewing the user activities of the account used by the vendor. This will assist in ensuring that there is appropriate oversight into how the vendor accesses the i-World production environment.	LBC will implement a process with vendors whereby access is granted for a limited time and monitored during the access period. Once changes have been agreed or approved with or by LBC vendors will have access to the system as required within the scope of the change for a duration appropriate to complete their activity. During the period of access and immediately after the vendor's activity and changes will be reviewed and signed off against the scope of the change by a system administrator within LBC. This will be implemented by 14 August 2020, all vendor accounts will be locked by this date.

5. IT General Controls Audit – Findings continued

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As part of our annual review of IT general controls we engaged our internal IT experts to review the Oracle Cloud system and Northgate system as key systems that impact on the financial statements, the findings of their work has been communicated to management and is summarised below.

Findings- Northgate i-World continued

No.	Deficiency	Recommendation	Management Response
2	Sharing of Administrative Account	Management should use named administrator accounts within IT systems in order to establish accountability. The use of individually named administrator accounts allows for the tracking of administrator activities within the system. Generic accounts should also be removed/disabled from the system.	LBC will only use named accounts for administrative tasks, or accounts which have a sole responsible party attached to them. BATCHJOB will be discontinued and administrators will use their own accounts for system changes or batch work. When an administrator moves on from their role if there is a requirement to maintain the account to ensure batch work can continue their account will be signed over to a senior officer within the ICT support team who will own the account until all dependencies are expired, the account will then be processed as a leaver. This will be documented to provide an audit trail. BATCHJOB will be discontinued by 14 August 2020. The RB user account is an “out the box” admin account that only certain jobs can be run from, this must remain a shared account however LBC will implement a process whereby access to the account is requested and approved/not approved by the ICT manager for individual officers for agreed periods of time/activities. This will be documented to provide an audit trail. RB ownership will change from 1 October 2020. There is work to be done to remove integrations off the RB user before restricting the access, this will be done in the run-up to 1 October 2020.

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