

REPORT TO:	Audit and Governance Committee 7 July 2022
SUBJECT:	Progress update on Council's Year End Final Accounts
LEAD OFFICER:	Jane West - Corporate Director of Resources (Section 151 Officer)
CABINET MEMBER:	Jason Cummings - Cabinet Member for Finance
WARDS:	All

SUMMARY OF REPORT:

The report provides Audit and Governance Committee with an update on progress on completing the Council's 3 Statutory Year End Accounts which relates to years 2019/20, 2020/21 and 2021/22.

The Council has published Year End Accounts for 2019/20 and 2020/21 and is currently working through 2021/22.

COUNCIL PRIORITIES 2020-2024

Having an audited set of accounts provides all stakeholders of the Council a level of confidence and assurance that the financial statements give a true and fair view. This will help ensure that the Council is working from a base financial position that is correct which should result in better and informed decision making which in turn will improve value for money for our residents.

FINANCIAL IMPACT:

Not having a set of historic accounts audited creates a risk with regards to balances that have been brought forward into future financial years. Potential impacts to revenue account will impact on reserves available to finance future spend and therefore it is important to get the Statements audited soon.

The additional work by the Council's external auditors on the 2019/20 Accounts will result in higher fees and this will be updated to the Audit and Governance committee at a later date once all fees have been agreed with GT and the Public Sector Audit Appointments (PSAA). A breakdown of known audit fees has been provided in Section 4 of this report.

RECOMMENDATIONS:

The Audit and Governance Committee is recommended to:

1. Note progress being made on audit of Draft Accounts for financial year 2019/20 and 2020/21 and;
2. Note the progress being made on completing Draft Accounts for financial year 2021/22

1. Introduction

- 1.1. The financial management regime within Local Authorities is governed under the Local Government Act 2003 and The Accounts and Audit Regulations 2015.
- 1.2. The Accounts and Audit Regulations contain provisions on financial management, annual accounts, internal control and audit procedures affecting all local authorities and a number of other local public bodies.
- 1.3. The Chartered Institute of Public Finance and Accountancy (CIPFA) produces the Code of Practice on Local Authority Accounting (the Code) which specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures.
- 1.4. The Code sets out the proper accounting practices defined by Section 21(2) of the Local Government Act 2003. These proper practices apply to statements of accounts prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2015.
- 1.5. The audit of those accounts is undertaken in accordance with the statutory framework established by Sections 3 and 20 of the Local Audit and Accountability Act 2014 for England.
- 1.6. Local Authority financial years run from April to March. Under the Accounts and Audit Regulations 2015, Local Authorities are required to publish Draft Year End Statement of Accounts by end of May of the next financial year with the Audit to be completed by end of July.
- 1.7. During the Covid-19 pandemic on 8th March 2021 the then Ministry of Housing, Communities and Local Government (MHCLG) (now Department of Levelling up, Housing and Communities (DLUHC)) wrote to local authorities confirming

details of changes made to the Accounts and Audit Regulations 2015. The Ministry had extended the statutory deadlines for local authorities to approve and publish their accounts for the 2020/21 and 2021/22 financial years.

- 1.8. The revised deadlines applicable to local authorities for the 2020/21 accounts are as follows:
 - i) Approve Draft Accounts by 31 July 2021 (previously 31 May)
 - ii) Public Inspection Period to start on or before first working day of August 2021 (previously included first 10 working days of June)
 - iii) Publish Final Audited Accounts by 30 September 2021 (previously 31 July).
- 1.9. Croydon Council has completed Draft Accounts for Financial Years 2019/20 and 2020/21 and provided sufficient time for Public Inspection as per the regulations. However, for both years the Final Audit has not yet completed.

2. 2019/20 Statement of Accounts

- 2.1. The Council published the 2019/20 Statement of Account on 19th October 2020, which were approximately two and a half months later than the revised statutory deadline. The draft Accounts were published on the Council's website and can be accessed from the following link:

<https://www.croydon.gov.uk/sites/default/files/draft%20Statement%20of%20Accounts%202019-20.pdf>

- 2.2. The external audit for the 2019/20 Accounts began in November 2020 by Grant Thornton (GT), the Council's External Auditors. A progress update report was presented by GT to the General Purposes & Audit Committee in October 2021.
- 2.3. The completion of Audit for 2019/20 Accounts is already delayed by 1 year and 9 months. Whilst a majority of the 2019/20 audit work has now been completed a substantive item relating to the treatment of Croydon Affordable Homes LLP and Croydon Affordable Tenures LLP remains outstanding.
- 2.4. The Council has now responded to all requests from GT so far and GT are now testing and evaluating the Council's responses within the firm.
- 2.5. The Council has made 15 qualitative and quantitative adjustments to the Draft Statement of Accounts since the start of the Audit. The total value of the

quantitative adjustments totals £80.75m of which £71.75m relates to the accounting adjustments related to Fairfield Halls (capital payment for works to Brick by Brick rather than a capital loan).

- 2.6. The Council is awaiting response from GT on their assessment of Croydon Affordable Homes/Croydon Affordable Tenures, which is expected soon. The Council is looking to finalise the audit of the 2019/20 Accounts by the end of September 2022.
- 2.7. At this stage the direction of travel is unknown in regard to the Croydon Affordable Homes/Croydon Affordable Tenures issue, however if GT were to reject the Council's position it will leave the Council with two options; to take the matter further formally or to accept GT's position and make the necessary corrections. The key issue in regard to CAH/CAT is the classification of the lease related to the transaction where properties moved from the Council to the entities. The Council initially accounted for this transfer as a finance lease, however GT has argued that it is more in-tune with an operating lease.
- 2.8. As it was indicated within the Council Budget Setting Report, presented to Full Council in March 2022, should the position crystallise as an operating lease, the Council will require a new financial strategy which would be likely to involve consideration of a further capitalisation direction request, a review of potential Council asset sales as an alternative to further borrowing, and careful consideration of whether to use some of its reserves or undertake other measures to ensure the Council's financial position is robust and sustainable.
- 2.9. The Council's position set out to GT would be neutral in revenue terms, whereas accounting for the transactions fully as an operating lease has the potential to impact the Council's revenue reserves by up to £70m.

3. 2020/21 and 2021/22 Statement of Accounts

- 3.1. The Council published the 2020/21 Draft Statement of Accounts on 31st August 2021.
- 3.2. These have remained in draft format since publication. The Draft 2020/21 Accounts were published with adjusted opening balances, where they were known and agreed with the external auditors.
- 3.3. The Council anticipates that the audit for the 2020/21 accounts to begin in July 2022. It is expected that the Audit to be completed by the end of October 2022.

- 3.4. The Council is currently working through the 2021/22 Statement of Accounts and will only publish these once the S151 Officer has sufficient confidence and assurance that the balances being brought forward are sound. With the 2019/20 and 2020/21 Accounts yet to be audited and with significant issues identified in 2019/20 it would be inappropriate to release a set of Draft Accounts without that necessary confidence in the opening balances.

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 4.1. Finance comments are provided through out this report. The total cost of the 2019/20 Audit is expected to exceed £0.370m. The agreed scale fees with the Public Sector Audit Appointments (PSAA) for 2019/20 Accounts was £0.133m and the agreed scale fees for 2020/21 is also £0.133m.
- 4.2. The Council is an opted in body to the Public Sector Audit Appointments (PSAA), which sets the annual fees for external audits and allocates local authorities with auditors.
- 4.3. The additional fees for the work done on the 2019/20, in addition to the scale fees, billed so far is £0.244m. Further fees may be incurred for work done on the second Report in Public Interest issued by the Auditors in relation to Fairfield Halls work carried out by Brick by Brick Croydon Ltd. These fees are subject to confirmation and approval by the Council and the PSAA.

(Approved by: Matt Davis – Interim Director of Finance Deputy S151 Officer)

5. LEGAL CONSIDERATIONS

- 5.1. The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services and Deputy Monitoring Officer that the financial affairs of local authorities are statutorily controlled and regulated in many ways.
- 5.2. In particular, the audit of local authority accounts is governed by the Local Audit and Accountability Act 2014 as detailed in the introduction to this report. Specifically, a notice of advertisement must be given of the public's rights to inspect the accounts, of the conclusion of an audit and of the availability of the auditor's report for inspection under the Accounts and Audit Regulations 2015, as amended, by the Accounts and Audit (Amendment) Regulations 2021.
- 5.3. Amongst other matters, the auditor is required to consider whether in the public interest to make a report on matters coming to their notice and to consider whether the report should be at the conclusion of the audit or immediately. Such a Report in the Public Interest was issued on 23 October 2020 highlighting concerns on financial sustainability and governance. A further

Report in the Public Interest was issued by the auditors on 26 January 2022 concerning the refurbishment of Fairfield Halls and related governance arrangements.

- 5.4. The auditor is also empowered, if they consider an item in an account to be contrary to law to apply to the court for a declaration to that effect. Separately, the auditor may apply for judicial review over any decision or failure to act by the Council that the auditor reasonably believes would affect the Council's accounts. Additionally, auditors are given specific powers to intervene in relation to local authority contracts.
- 5.5. In relation to the Council's Constitution and the specific role and responsibilities of this Committee the Constitution provides that the overall purpose of the committee is 'to provide an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards'. In particular the committee is responsible for overseeing both internal and external audit helping to ensure that efficient and effective assurance arrangements are in place.
- 5.6. Specifically, in relation to external audit, financial reporting and accountability and escalation the committee is responsible for:
 - considering the reports of external audit and inspection agencies and making recommendations as appropriate to management, Cabinet and/or Full Council. Reviewing the external auditor's opinion and reports to Members, and monitoring management action in response to the issues raised by external audit;
 - Commenting on the scope and depth of external audit work and ensuring it gives value for money.
 - reviewing the annual statement of accounts and specifically considering 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; and
 - reporting to the full Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- 5.7. The review and consideration of this report by the Committee supports its overall purpose and responsibilities as set out in the Constitution and relevant supporting legislation.

(Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Legal Services and Deputy Monitoring Officer)

6. HUMAN RESOURCES IMPACT

6.1. There are no immediate HR matters arising from the content of this report for Croydon Council employees or staff. Should any matters arise these will be dealt with in accordance with the Council's HR policies and procedures.

(Approved by: Gillian Bevan, Head of HR Resources and Assistant Chief Executives on behalf of the Chief People Officer)

7. EQUALITIES IMPACT

7.1. The Council has a statutory duty to comply with the provisions set out in the Sec 149 Equality Act 2010. The Council must therefore have due regard 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.

7.2. In setting the Council's budget for 2021/2022, proposals were required to complete an Equality Impact Assessment. As Officers deliver against the approved budget, including the savings within it, they will continue to monitor for any unanticipated equality impacts.

7.3. The Council considers the impact of poverty and inequality on the protected characteristics whilst decision making. The cost-of-living crisis is likely to have an impact across a range of characteristics. This may impact on the Council's ability to collect monies owing in the form of residential and commercial rents, Council tax, parking charges and other fees. The impact of the cost-of-living crisis is likely to create new debt for people who were just managing and exasperate debt for those who had existing debt. This is likely to impact further on communities already suffering from job losses and debt following Covid 19. This may impact more on residents that were unemployed, already undertaking job roles which were zero hours contracts in sectors such as hospitality and retail and families.

- 7.4. The borough's geographical differences may also have an impact to this regard in that the north and east of the borough have more deprivation than the south of the borough. Our local data indicates that African/African Caribbean, Asian and other global majority communities are more likely to be located in the north and east of the Borough. There are also pockets of deprivation in pockets in the south of the brough which are largely inhabited by white British residents. It should be noted that rent increases could potentially increase the number of homeless people and families.
- 7.5. The budget should take due regard to the delivery of services which may impact on protected characteristics. The Council should ensure that they deliver the best core service that they can afford. This relates to a range of people focused services such as: Adult Social Care, Children's services, young people, older people and asylum seekers. It is also of fundamental importance that the impact on disabled people and parents of disabled children should also be ascertained.
- 7.6. The full impacts of Covid 19 and long Covid on the Adult Social Care Service may not be apparent at this time and could possibly lead to more adults experiencing either physical or mental disabilities putting additional pressure on Adult Social Care. There may also be a subsequent impact on disabled children along with their parents. It is essential to ensure that both groups receive an appropriate standard of care despite the pressure on services to reduce costs. Subsequently young people transitioning from Children's social care to Adults Social Care could impact heavily on budget dependent on the needs of individuals identified.
- 7.7. Departments should ensure that they pay due regard to all protected characteristics regarding potential mitigation to proposals.

(Approved by: Denise McCausland, Equalities Programme Manager, Policy Programmes and Performance)

8. ENVIRONMENTAL IMPACT

8.1. No Environmental Impact

9. CRIME AND DISORDER REDUCTION IMPACT

9.1. No Crime and Disorder reduction Impact

10. DATA PROTECTION IMPLICATIONS

10.1. WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

10.2. HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

YES

CONTACT OFFICER: Nish Popat – Interim Head of Corporate Finance

APPENDICES TO THIS REPORT

None

BACKGROUND DOCUMENTS:

None