

Annual Governance Report

September 2007



Annual Governance Report

Croydon London Borough Council

Audit 2006/07

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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Purpose of this report

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case Corporate Services Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
 - where we suspect or detect fraud;
 - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
 - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 1.
- 4 This report has been prepared for presentation to the Corporate Services Committee on 19 September 2007. Members are invited to consider:
 - the matters raised in the report before the financial statements are approved;
 - the representation letter on behalf of the Council and those charged with governance before we issue our opinion;
 - amending the financial statements for any unadjusted misstatements or any significant qualitative aspects of financial reporting; and
 - the recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to Members in July 2006. We have issued separate reports during the year on specific aspects of our programme. These are listed in Appendix 2.

Key messages

- 6 Our work on the financial statements is substantially complete although there are still some outstanding issues to be resolved. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of Corporate Services Committee. We propose issuing an unqualified audit opinion on the accounts by the end of September 2007 (a draft report is attached at Appendix 3).
- 7 In our view, the financial statements of the pension fund present fairly the financial transactions of the pension fund.
- 8 We expect to be able to confirm that in our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 9 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is in progress. We propose issuing an unqualified conclusion on the use of resources by the end of September 2007 (a draft report is attached at Appendix 3).
- 10 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

Accounts and Statement on Internal Control

- 11 Our work on the financial statements is substantially complete although there are still outstanding issues to be resolved. In particular, our work on the following has yet to be concluded:
 - SIC - queries relating to the basis for including internal control weaknesses;
 - debtors and creditors - agreement to supporting documentation (Social Services);
 - fixed assets - rights and obligations testing
 - the collection fund - agreement of balances to systems and substantive testing; and
- 12 Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of Corporate Services Committee. We propose issuing an unqualified audit opinion on the accounts by the end of September 2007 (a draft report is attached at Appendix 3). We cannot formally complete the audit as matters brought to our attention by local electors need to be considered. We are satisfied that these matters do not have a material effect on the financial statements.
- 13 Auditors are required to obtain written representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 14 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 15 The final draft of the letter of representation has been attached as Appendix 4.

Unadjusted misstatements

- 16 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. At this stage there are no unadjusted misstatements for us to bring to the attention of Members.

Adjustments to the financial statements

- 17 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. At this stage no significant adjustments have been made.

Accounting practices

- 18 We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting. There are no matters to bring to your attention.

Systems of internal control

- 19 We have not identified any material weaknesses in internal control which we need to report to you.
- 20 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 21 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.

Use of resources

Work performed

- 22 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
 - data quality work; and
 - the best value performance plan.
- 23 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 5.

Use of resources assessment

- 24 We are currently carrying out our use of resources assessment and when finalised will issue a report, which we will discuss with officers. We expect to conclude that the Council has proper arrangements for managing its resources and to issue an unqualified value for money conclusion before the end of September.

Data quality work

- 25 We have issued our report on data quality which concluded that the Council had adequate arrangements for managing the quality of its data.

Best Value Performance Plan

- 26 Our work in respect of the Council's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

2005/06 recommendations

- 27 In our 2005/06 Annual Governance Report we highlighted three issues for the attention of the Corporate Services Committee relating to the Council's use of resources arrangements. The latest position for each of these is summarised below.

Table 1 General Fund balances and reserves

Balances and reserves	2001/02 £m	2002/03 £m	2003/04 £m	2004/05 £m	2005/06 £m	2006/07 £m
General Fund	6.6	1.4	0.3	0.9	4.5	9.2
Earmarked reserves (excluding schools)	8.6	2.1	2.3	3.0	8.5	15.7
Total	15.2	3.5	2.6	3.9	13.0	24.9

- 28 We are pleased to note that the Council has continued to strengthen its General fund balance and, achieved its medium term strategy of having General Fund balances of 3 per cent of net operating expenditure. The Council set aside £2m from the 2006/07 budget for this purpose and exceeded this by a further £2.6m during the year.
- 29 The Council expects to maintain its balances at a minimum of 3% of net operating expenditure over the medium term, in line with its medium term financial strategy.

Table 2 Social Services budget management

Year	Overspend £m
2004/05	1.9
2005/06	3.1
2006/07	0.9*

** in addition £0.8m of contingency was allocated to Social Services to cover the costs of keeping Coleby Court open.*

- 30 The Council has achieved a balanced revenue budget overall. Last year we referred to overspends in Social Services. I am pleased to see that the level of overspend has reduced significantly and that the overspends in 2006/07 were in the difficult demand led areas of children's residential placements and learning disabilities. The Council is continuing to monitor Social Services' budgets and spending.

Table 3 Collection Rates

	2004/05	2005/06	2006/07	2006/07 Croydon Council target	2006/07 Outer London Borough Average*
Council tax	92.8%	93.9%	94.7%	95.5%	95.5%
Business rates	97.6%	96.7%	97.9%	99.0%	98.7%

* source <http://www.local.odpm.gov.uk/finance/ctax/data/cp067tab4.pdf>

- 31 Last year we reported on the need to improve collection rates and these improved in 2006/07, particularly for council tax where the system was changed during the year. Whilst improving, collection levels are still below the outer London borough average and below the Council's own targets set for the year and it is important that improvements continue to be made.

Recommendation

R1 Continue to take action to improve the Council's collection of council tax and business rates.

Audit fee update

- 32 We reported our fee proposals as part of the audit plan for 2006/07. The table below reports the outturn fee against that plan.

	Plan 2006/07	Actual 2006/07
Financial statements and Statement on Internal Control	£246,000	£246,000
Use of resources	£132,000	£132,000
Total audit fees	£378,000	£378,000
Opinions on PFI schemes	-	£6,000*

* *Estimated additional fee for work leading to our opinion on the proposed accounting treatment of the street lighting PFI scheme.*

The outturn on grant certification and inspection fees will be reported in the annual audit and inspection letter.

Appendix 1 – The Audit Commission's requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
 - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Council, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

Appendix 2 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	April 2006	April 2006	Management
Interim and final accounts audit memorandum	October 2007	Not yet issued	Management
Annual governance report	September 2007	September 2007	Corporate Services Committee
Value for money conclusion	September 2007	September 2007	The Council
Opinion on financial statements	September 2007	Not yet issued	The Council
BVPP report	December 2006	December 2006	The Council
Data quality report	January 2007	March 2007	Management
Performance management	November 2006	November 2006	Management
Special Educational Needs Costs	September 2006	September 2006	Management
Children's Trust	September 2006	September 2006	Management
Waste Management	June 2007	Not yet issued	Management
Impact of unaccompanied asylum seekers	August 2007	August 2007	Management
Customer Focus follow up	November 2007	Not yet issued	Management
Grant claims report	January 2008	Not yet issued	Management
Annual audit letter	March 2008	Not yet issued	The Council

Appendix 3 – Proposed auditor's report

Independent auditor's report to the Members of Croydon Council

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of Croydon Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to Croydon Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2006:

- the financial position of the Council and its income and expenditure for the year; and
- the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Pension Fund and Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2006, the financial position of the Council as at 31 March 2007 and its income and expenditure for the year then ended; and

The pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Council Accounting in the United Kingdom 2006, the financial transactions of the Pension Fund during the year ended 31 March 2007, and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Certificate

The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of matters brought to our attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Derek Elliott

District Auditor

Audit Commission

Millbank Tower

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XX September 2007

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditors' Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Croydon Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's Best Value Performance Plan for the financial year 2006/07 in December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Auditors' responsibilities

Auditors have a duty under the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public. I have no matters to report.

Derek Elliott

District Auditor

Audit Commission

Millbank Tower

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London SW1P 4HQ

XX September 2007

Appendix 4 – Management representation letter

Derek Elliott
District Auditor
Audit Commission
Millbank Tower
Millbank
London SW1P 4HQ

Croydon Council - audit of 2006/07 financial statements

We confirm that to the best of our knowledge and belief and, having made appropriate enquiries of officers:

- all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Committee meetings, have been made available to you
- we acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you
- there are no uncorrected financial statements misstatements, of which we are aware, which would have a material effect on the accounts, either individually or in aggregate
- there are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements
- the Council is not involved in any material activities which need to be disclosed as 'group accounts'
- the financial statements and notes to the accounts include any material liabilities or contingencies that are required to be accrued or disclosed by FRS12 "Accounting for Provisions, Contingent Liabilities and Contingent Assets"
- there are no instances of non-compliance with laws or regulations likely to have a significant effect on the finance or operations of the Council
- no significant post balance sheet events have occurred which would require adjustment to or disclosure in the statement of accounts
- there is no significant pending litigation, proceedings or claims other than those disclosed in the statement of accounts

- there are no other material transactions with related parties other than those which have been properly recorded and disclosed
- there are no known significant instances of irregularities, including fraud, other than those already disclosed to the auditor
- in accounting for transactions relating to the Customer Focus Initiative, Leisure PPP, New for Old and Ashburton Private Finance Initiative schemes, the Council has complied with relevant government and CIPFA guidelines
- all obligations under finance leases or hire purchase contracts have been disclosed in the accounts
- no financial guarantees have been given to third parties
- we have complied with all aspects of contractual agreements that would require adjustment to, or disclosure in, the financial statements
- registers of interest are complete and up to date in respect of directors and key managers
- we have no plans or intentions that may materially affect the valuation or classification of assets and liabilities
- the Council has taken appropriate steps to ensure all significant impairments to fixed assets are identified, and accounted for accordingly

Nathan Elvery

Director of Finance and Resources

Appendix 5 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.
- 2 The Code criteria are linked to the use of resources assessment key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Council has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below.

Code Criteria	Description	Associated UoR KLoE	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	Adequate
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	Adequate

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7	The body has put in place arrangements to manage and improve value for money.	5.2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	Adequate