

# Annual Audit Letter

Croydon London Borough Council

Audit 2008/09

December 2009



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## 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 non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from my 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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## Audit opinion

- 1 I issued an unqualified opinion on the financial statements on 25 September 2009.
  - 2 The audit certificate, and hence the formal closing of the audit, is issued when all my work for 2008/09 has been completed. I am delaying the certificate for the following reasons.
    - There is an unresolved elector query from 2006/07 relating to the main accounts of the Council.
    - The Pension Fund Annual Report for 2008/09 has not yet been finalised and has therefore not yet been submitted to audit for review.
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## Financial statements

- 3 The financial statements were submitted for audit by the due date, along with a complete set of working papers.
  - 4 In my September 2009 Annual Governance Report I highlighted to Members that my audit had identified a small number of errors which management agreed to adjust. None of these errors impacted on the revenue resources available to the Council.
  - 5 My team received excellent cooperation from officers to enable me to complete my audit within the agreed timeframe. I will continue to work closely with the Council to support its commitment to strengthen the quality of its financial reporting and as it moves towards preparing financial statements under International Financial Reporting Standards in 2010/11.
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## Value for money

- 6 I am satisfied that the Council, having regard to the criteria specified by the Audit Commission, in all significant respects, made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009. I issued an unqualified value for money conclusion alongside my opinion on the financial statements.
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## Pension fund

- 7 My audit opinion on the Council's financial statements issued on 25 September 2009 included an unqualified opinion on the Pension Fund's financial statements. I reported in the Pension Fund Annual Governance Report that the pension fund financial statements submitted for audit were complete and no errors were identified during the audit.

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## Audit fees

- 8 Table 1 shows that I have completed the audit of the financial statements, use of resources and pension fund within the fee agreed with the Council.

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**Table 1      Audit fees 2008/09**

	<b>Actual</b>	<b>Proposed</b>
Financial statements	245,000	245,000
Use of resources	174,000	174,000
<b>Total audit fees</b>	<b>419,000</b>	<b>419,000</b>
Non-audit work	6,400	0
Pension fund	38,000	38,000
<b>Total</b>	<b>463,400</b>	<b>457,000</b>

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- 9 The audit fee for 'non-audit work' relates to the additional work required to formally respond to an elector query relating to the 2006/07 financial statements.

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## Independence

- 10 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

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## Significant issues arising from the audit

- 11** In September 2009 I reported in the Annual Governance Report (AGR) two material accounting errors in the financial statements. Neither of these impacted on the revenue resources available to the Council. Management amended the statements in respect of these two errors.
- Charging the decrease in value of council houses directly to the income and expenditure account (£33.553 million). Downward valuations should be charged firstly to the revaluation reserve where credit balances exist for the respective assets.
  - Not writing out the accumulated depreciation (£28.286 million) relating to assets revalued in 2008/09. This amendment increased the net worth of the Council.
- 12** I reported in the Pension Fund Annual Governance Report that there were no significant issues arising from the audit of the pension fund.
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## Material weaknesses in internal control

- 13** I did not identify any significant weaknesses in your internal control arrangements.
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## Accounting Practice and financial reporting

- 14** I considered the qualitative aspects of your financial reporting. Overall I was satisfied with the quality of the financial statements presented for audit. I have submitted a separate report to officers with minor recommendations to help improve the quality of the financial statements in 2009/10.
- 15** I also made two recommendations in the Annual Governance Report to improve accounting practices for 2009/10. These recommendations related to the following issues.
- I identified £16.8 million of fixed assets that the Council had not included in its five year cycle of valuations. I made a recommendation to improve arrangements for asset valuation.
  - I found that the Council's records to support the revaluation reserve were not fully integrated with the asset register. I made a recommendation to integrate these records for 2009/10.
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# Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

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## Use of resources judgements

- 16** From 2008/09, my use of resources assessment forms part of the Comprehensive Area Assessment (CAA) and comprises three themes that focus on:
- sound and strategic financial management;
  - strategic commissioning and good governance; and
  - the management of natural resources, assets and people.
- 17** In seeking to foster continuous improvement the Audit Commission introduced a more rigorous and broader based methodology for assessing a body's use of resources in 2008/09. The three themes are informed by nine detailed key lines of enquiry (KLOE) and the assessment criteria are more stringent than previously, with a focus on outcomes for the local communities rather than internal processes. Members should take this into account when considering relative performance between 2008/09 and previous years.
- 18** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 19** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 20** The Council's use of resources theme scores have been agreed with management and are set out in Table 2 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised below the table.

**Table 2 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	3 - performing well
Governing the business	3 - performing well
Managing resources	2 - meets minimum requirements

### Managing finances - performing well

- 21** Overall the Council is able to demonstrate that it can effectively manage its finances to deliver value for money. It has strong arrangements in place to plan its finances to deliver strategic priorities and it has demonstrated some good outcomes.
- 22** The Council has built upon its record of challenging costs and targeting investment. It demonstrates strength and tangible outcomes in its use of financial reporting to inform decision making and support Members engagement in managing the finances of the Council.
- 23** The financial statements are generally sound but as previously mentioned in this letter there remains some scope to reduce the level and nature of errors identified by our audit.
- 24** The Council has a number of mechanisms to identify the needs of wider stakeholders in respect of financial reporting and demonstrates the outcomes when publishing summarised financial information in its free newspaper.

### Governing the business - performing well

- 25** Engagement and understanding of the needs of local people has been enhanced and is being used to target the resources of the Council, the Local Strategic Partnership (LSP) and external funding. Commissioning at service level works well but an overall systematic approach corporately and across the LSP is still to be developed and this has been recognised by the Council.
- 26** Data quality is generally good, with good examples of initiatives of working with partners to improve quality to support decision making. Internally much has been done over the past two years with further enhancements planned. We identified an issue with one of the four indicators spot checked, but we have concluded across the four indicators that data quality is satisfactory; an improved position over the previous year.

**27** The Council demonstrates strength in its governance arrangements, particularly Member engagement and involvement, clarity of vision and priorities and attention to the governance of partnerships, which has contributed to their effectiveness (eg Healthy Croydon). The Council also demonstrates strengths in the way it manages risk. It has demonstrated that it can be innovative without being confined by assurance and risk management processes, for example the rigorous process for CCURV, leading to a decision fully supported by Members and now delivering tangible benefits. The commitment (both visible and financial) to countering fraud has seen some successful high profile prosecutions (all demonstrating good cross agency working) and increased awareness amongst staff of anti-fraud and governance arrangements.

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### Managing resources

**28** The Council can do more to demonstrate strong community leadership in relation to the way it manages its natural resources, again this is recognised by the Council. Its approach is service led rather than a top down strategic approach supported by good corporate leadership embedding it across services and partners. Outcomes are not consistent and are driven by variable rationale. The Council has broadly a good approach to reducing energy consumption in its own assets but it is at the early stages of being able to respond to the carbon reduction commitment. Council travel planning is weak and the impact of school travel planning is not evident. The Council is at the very early stages of being able to respond to climate change adaptation or manage its green assets strategically.

**29** The Council has a sound approach to managing assets to improve value for money and deliver service and community priorities. The Council's approach to operational asset management is delivering efficiency savings, improving property condition and energy efficiency. However, as evidenced by the fixed assets issues highlighted in this report there is scope to improve the coordination between property management and finance which has been recognised by the establishment of the Asset Board reporting to the Corporate Management Team.

**30** The Council's approach is recognised as best practice and innovative and is leading by example in terms of using its asset base to stimulate regeneration, cross partnership working and improving value for money. Its innovative urban regeneration vehicle and special purpose housing vehicle is already delivering results in spite of the economic downturn. In addition, to regeneration projects the Council's approach to asset management has delivered improvements to service based and community infrastructure.

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### VFM conclusion

**31** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas were set out in my Annual Governance report.

## Value for money and use of resources

**32** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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### Local risk based work

**33** In addition to my work on use of resources and to support the value for money conclusion I also reviewed the Council's arrangements to address two significant local risks:

- management of the Local Enterprise Growth Initiative; and
- working with the PCT to address health inequalities in Croydon.

**34** I have summarised the main findings and conclusions from this work in the paragraphs below.

### Management of the Local Enterprise Growth Initiative (LEGI)

**35** The current economic climate has raised the profile of LEGI and the Council's responsibility for ensuring that the grant is spent as intended and it delivers the planned outputs and outcomes. My review focused on the Council's governance arrangements for managing the LEGI.

**36** In June 2009 I reported to Members that I had found that the Council had put in place robust governance arrangements for LEGI. I particularly highlighted the Council's strengths in putting in place:

- effective scrutiny arrangements with risk management an integral part of the review programme for local businesses and a sound evaluation framework;
- sound performance management arrangements with effective leadership demonstrated by Members;
- a robust Croydon Enterprise Strategy 2008/11 redefined to address the prevailing financial climate;
- good feedback mechanisms, for example the Advisory Board, Delivery Partner co-ordination workshops/networking events and business support co-ordination meetings; and
- arrangements to secure value for money through procurement practices.

**37** In addition, I also obtained Management agreement that the following aspects of managing LEGI needed to be improved:

- consistently monitoring value for money by regularly challenging costs and outcomes;
- building a lasting legacy with projects which, after funding ends, continue to be self sufficient; and
- consistently applying agreed procedures for securing the financial management of the LEGI procurement process.

**38** I have agreed to follow up my original report by the end of 2009.

### Health inequalities

- 39** In November 2009, I reported to the Council my report on the effectiveness of partnership working between the Council and the local PCT in tackling health inequalities in Croydon.
- 40** My report found that the Council is working well with the PCT in:
- delivering strategic and operational objectives in respect of health inequalities;
  - using information and intelligence to drive decision making;
  - putting in place an effective Public Health department to inform and understand health inequalities across Croydon; and
  - securing the engagement of the Local Strategic Partnership and Healthy Croydon Partnership, supporting the reduction of health inequalities.
- 41** I did identify some areas of joint working where there is scope for improvement, in particular:
- strengthening the strategic focus of the partnership and by individual organisations to reduce the potential for gaps to exist in tackling health inequalities;
  - increasing buy in from the business sector; further developing links with academia and making greater use of voluntary sector data; and
  - ensuring all staff being used to tackle health inequalities receive appropriate training.
- 42** I am currently discussing with the PCT and Council officers how best to take forward the actions agreed in my report through a facilitated workshop.

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# Closing remarks

- 43** I have discussed and agreed this letter with the Chief Executive and the Executive Director of Resources and Customer Services. I will present this letter at the Corporate Services Committee in January 2010 and will provide copies to all members.
- 44** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

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**Table 3      Audit reports issued during 2008/09**

<b>Report</b>	<b>Date issued</b>
Supplementary Opinion Plan	April 2009
Management of the Local Enterprise Growth Initiative	June 2009
Annual Governance Report	September 2009
Opinion and Value for Money Conclusion	25 September 2009
Accounts Memorandum Audit Report	October 2009
Review of health inequalities	November 2009
Annual Audit and Inspection Letter	November 2009

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- 45** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Phil Johnstone  
District Auditor  
December 2009

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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