

Audit and Governance Committee

Annual Report 2023/24

Foreword

It is my pleasure to present this annual report for the Audit and Governance Committee for 2022/23 to Full Council.

This report highlights the work of the Committee over the last year as provided within the Committee's 'Terms of Reference and Scope of Work'. It also includes a brief forward look into the year ahead on the Committee's work and developments. I have specific comments in the report in relation to the Council's exit strategy and expected outcomes in governance and financial control in the next few years to satisfy the requirements of the Department for Levelling Up, Housing, and Communities.

I would like to thank the officers, external auditors, cabinet members, professional advisers, and of course, members of the Audit and Governance Committee for their input and support of the work of the Committee. It has been an eventful year, with the Council issuing its third S114 in January 2023, while continuing to work to implement actions arising from the Reports in the Public Interest in January 2022 and October 2020.

The Audit and Governance Committee continues to provide a robust and independent challenge to the processes, structures and arrangements surrounding the Council's audit, assurance, risk management, financial control, and governance framework. Significant focus has been given to the latter two in recent times, particularly as it concerns the risks to the Council's underlying financial sustainability, the effectiveness of its governance and assurance arrangements, and the Council's ability to deliver services to residents.

As mentioned in my last report, soon after I took on the role of the Independent Chair of the Committee, The Council remains on a journey of improvement and transformation, which may take some time to manifest in improved outcomes for the people of Croydon. It is clear, Mr Mayor that the Council is on the right track in its journey of improvement and transformation, but equally clear that there is still a long way to go to embed the required culture, control, sustained financial discipline, and fully mitigate the impact of the historical challenges.

The Committee continues to seek assurances on the effectiveness and pace of delivery of programmes to reinforce the values, discipline and culture to deliver sustained financial recovery and reporting, budgetary control, risk management and effective governance in an open and transparent environment.

The Council would recall some of the immediate actions taken in the previous year to strengthen the work of the committee, including the change in the name and terms of reference of the committee, development activities for Committee

members, strengthened relationship with the Council and other Committees, the introduction of an Action Tracker, and greater use of benchmarking, peer and best practice reviews. These were reinforced in the past year with further training and support for committee members, improved reporting by offices for the committee and the improvement of the terms of reference for an independent member with technical and financial expertise to be appointed within the next year. The Committee also plans to make greater use of benchmarking, peer reviews and best practice information. The Committee intends to spend some time reviewing its work plan for 2023/24 to ensure that it remains robust and effective in providing independent assurance across all areas within its terms of reference.

Once again, I thank my colleagues on the Committee, The Executive Mayor and his Cabinet members, the Council's Chief Executive and her team, and all members of the Council for their support of the work of the Committee during the year. In particular, I would like to acknowledge the additional time and responsiveness of the Cabinet Member for Finance, Chair of Scrutiny, Section 151 Officer, Head of Internal Audit, and the Committee's Democratic Services and Governance Officers to my challenge and frequent requests for meetings and assurance as the Independent Chair of the Committee.

The next year will be even more demanding as the Committee seeks assurance and evidence of effective budgetary controls and financial estimates by the Council, accurate assessment of its assets, liabilities and reserves, effective risk assessments, openness, transparency and capacity, capabilities and pace to deliver the required financial stability, culture transformation and learning from the various statutory and non-statutory reports on its finance, internal control and governance to deliver efficient public services to its and best value in the use of public funds. The Committee will also place additional focus on the Council's trajectory, risks and delivery of its Exit Strategy agreed with the Department for Levelling Up, Housing, and Communities.

Dr Olu Olasode PhD APSA FCCA
Independent Chair
Audit and Governance Committee

Introduction

1. The Audit and Governance Committee (the Committee) has a wide ranging brief that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control including audit, anti-fraud and the financial reporting frameworks. It also deals with a limited number of matters not reserved to the Council or delegated to another Committee and related to a non-executive function. The Committee was formed in 2022, replacing the former General Purposes and Audit Committee. This was the second full year of the Committee being in place.
2. This report details the work of the Committee during 2023-24, outlining the progress in:
 - Governance;
 - Exit Strategy;
 - Transformation;
 - Budget Monitoring and Financial Recovery;
 - Financial Reporting;
 - Internal Control;
 - Risk Management;
 - Internal Audit;
 - Anti-fraud;
 - External Audit;
 - Financial Conduct and Compliance, and
 - Enabling Scrutiny, Voice and VFM
3. This report also looks forward to 2024-25 and highlights some of the changes and improvements planned.
4. Members of Committee have a wide range of skills and bring both technical and professional experience to the role. Table 1 details the Committee Members for 2023-24.

Table 1: Members of the Audit and Governance Committee 2023-24

| Role | Membership during 2023/24 |
|-------------------|----------------------------------|
| Independent Chair | Dr Olu Olasode |
| Vice-Chair | Councillor Matt Griffiths |
| Member | Councillor Claire Bonham |
| Member | Councillor Simon Brew |

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|--------------------|---|
| Member | Councillor Sherwan Chowdry (until 17 May 2023) |
| Member | Sean Fritzsims (from 17 May 2023) |
| Member | Councillor Patricia Hay Justice (until 17 May 2023) |
| Member | Councillor Endri Llabuti |
| Member | Enid Mollyneaux (from 17 May 2023) |
| Member | Councillor Nikhil Sherine Thampi |
| Independent Member | David Clarke (From March 2024) |
| Reserve Members: | Councillors: Kola Agboola (from 17 May 2023), Alisa Flemming (from 17 May 2023), Sean Fitzsimons (until 17 May 2023), Simon Fox, Mark Johnson, Enid Mollyneaux (until 17 May 2023) and Stella Nabukeera and Helen Redfern (from 17 May 2023). |

5. The Committee during the year advertised for the vacant post of independent member, and following a shortlisting, commenced interviewing potential candidates in June 2023. The successful candidate attended his first Committee meeting in March 2024.
6. The Committee has continued the use of an 'actions log'. This helps monitor the implementation of actions arising from each Committee.
7. In September 2023 the Committee completed an Assurance Mapping: This was to review the Committee's terms of reference and confirm that the Committee was obtaining sufficient to satisfy the requirements of all aspects of its terms of reference. The assurance map is now included as a standing item at each Committee meeting to help inform the Committee's forward plan.
8. Member training was provided to members on the role of the Audit and Governance Committee on 20 July 2023.

The work of the Committee in 2023-24

9. The Audit and Governance Committee met seven times during the year, during which time it continued to provide a robust and independent challenge to the processes, structures and arrangements surrounding the Council's audit, assurance, risk management, financial control, and governance framework.
10. Significant focus was particularly given to the latter two during the last year, as these particularly impact the Council's underlying financial

sustainability, the effectiveness of its governance and assurance arrangements, and the Council's ability to deliver services to residents.

Governance

11. The Audit and Governance Committee continued to monitor progress in the Council delivering the 2021/22 AGS Action Plan, with an update report on progress being presented at the meeting held on 20 April 2023. (The 2021/22 Annual Governance Statement had amalgamated the Council's various improvement action plans arising from the RIPI 1, RIPI 2, Croydon Renewal Plan, investigation and other reports.)
12. The 2022/23 AGS and Action plan were presented and agreed by the Committee at the meeting held on 19 October 2023. An update on the 2022/23 AGS Action Plan was subsequently reported to the Committee at the meeting held on 1 February 2024.
13. The Committee's oversight included, but was not limited to, seeking assurance and evidence of:
 - Effective risk management of executive decisions on projects.
 - Compliance with legal advice, procedures and the Council's Constitution
 - Working within delegated authority and seeking approvals where needed.
 - Governance of strategic developments, with clear guidance on the roles of the nominated representatives.
14. In addition, the Committee considered additional measures that should be taken to address the risk of non-compliance in future.
15. During the year, the Committee also received a whistleblowing update and approved the Council's governance framework.

Exit Strategy

16. The Improvement and Intervention Panel's 'Intervention Exit Strategy' (IAP Exit Strategy) was issued in October 2023. This IAP Exit Strategy is owned by the IAP and describes the tangible improvements they expect the Council to make by March 2025. These are grouped under the following headings:
 - Governance
 - Culture and Leadership
 - Financial stability
 - Service performance
 - Capacity and Capability to improve

The IAP Exit Strategy also provides a framework against which the IAP can report the Council's progress.

17. In presenting the report of the 'Annual Governance Statement 2022/23 and Action Plan' to the Committee at its 19 October 2023 meeting Officers advised that work to identify overlaps between AGS Action Plan and IAP Exit Strategy would be undertaken and confirmed that IAP Exit Strategy Actions would be included in future AGS Action Plan update reports.
18. The Annual Governance Statement (Update on Action Plan 2022/23) report to the Committee at the meeting held on 1 February 2024 further explained that an Exit Strategy Action Plan Tracker had been developed and that the Committee would receive reporting on the recommendations when targets were met.
19. The Committee is expecting further updates during 2024/25 as actions are implemented and will continue to monitor the progress of these and challenge where appropriate.

Transformation

20. Croydon needs to save just under £100m in four years and will only do this by becoming the most cost-efficient and effective council in London. In order to achieve this it needs to radically change and the Committee, perceiving this transformation as key, requested updates on the Council's transformation progress during the course of the year.
21. In September 2023 the Committee was updated on the development of the People & Cultural Transformation Strategy. The presentation provided covered the Council's journey up to then in making workforce culture change and the development of the strategy and actions over the next three years to ensure improved service are provided to residents. It was also explained that a Transformation Board had been established in 2022 to oversee service delivery work programmes and that the newly recruited Director of Transformation was working closely with the Chief People Officer.
22. The Committee will be requesting further updates during 2024/25 and will continue to monitor the Council's transformation journey.

Budget Monitoring and Financial Recovery

23. The Committee has continued to build on the understanding and assurance it developed in 2021/22 over the Council's financial governance, with reports being received on:
 - The Oracle improvements Programme, (presented to the October 2023 meeting.)
 - The Core Business Systems Assurance, (presented to the March 2024 meeting.)

Financial Reporting

24. The accounting treatment for Croydon Affordable Homes/Croydon Affordable Tenures was resolved in early 2023 and the amended draft Financial Accounts 2019/20 were subsequently presented to the Committee at the 20 July 2023 meeting. Following completion of External Audit work, the final Financial Accounts 2019/20 were subsequently presented at the 14 March 2024 meeting.
25. The 2020/21, 2021/22 and 2022/23 accounts were not completed due to the delays with 2019/20 Audit, which resulted in the statutory deadlines for the completion of these reports (of 30 November in 2021, 2022 and 2023 respectively) being missed.
26. With the Financial Accounts 2019/20 being finalised, a plan for the 2020/21 accounts was also presented at the 14 March 2024 meeting. This plan aims for these accounts to be finalised by 30 September 2024, with the subsequent year accounts taking a further 6 months each to complete.

Internal Control

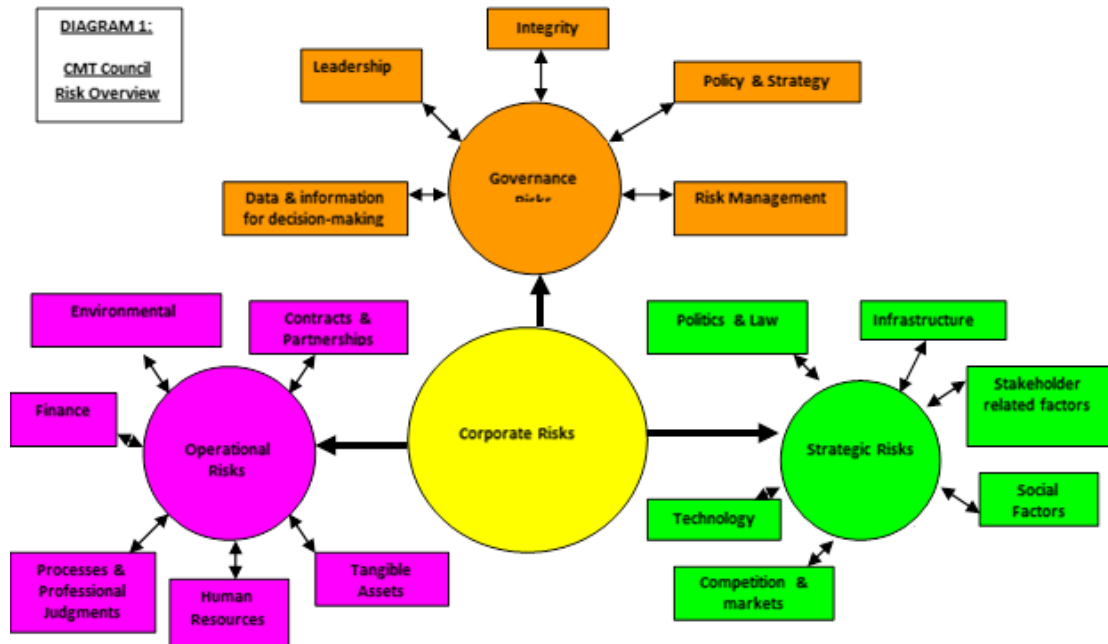
27. A pivotal role of the Committee is its work in developing the Council's internal control and assurance processes culminating in the Annual Governance Statement (AGS). The Accounts and Audit Regulations 2015 require the Council to review the effectiveness of its systems of internal control and publish the AGS each year alongside the financial statements. The information for the AGS is generated through the Council's Assurance framework including:
 - Risk management;
 - Internal Audit;
 - Anti-Fraud;
 - External Audit.
28. The Committee leads this review by receiving regular reports on these service areas.
29. To support its understanding of issues relating to internal control and to emphasise its commitment to a robust internal control environment, the Committee invites officers to attend its meetings to give briefings in relation to strategic risks and what is being done to mitigate these. It also invites officers to give explanations where significant issues are identified through internal audits.

Risk Management

30. The Council has a formal risk management framework that is modelled on good practice activities operated within local authorities and other public sector organisations. This framework sets out the requirements and responsibilities for the management of risk including at the most

senior levels of the organisation and includes activities such as a formal quarterly review and reporting process for the Corporate Management Team (CMT) and Divisional Management Teams (DMTs).

31. The Council's key strategic risks are identified, recorded and reviewed continuously to ensure integration between the risk management framework and the strategic, financial and performance management frameworks using the reporting framework detailed in Diagram 1. Work to strengthen corporate risk management this year has included:
 - a. 'Take a step back risk workshops' externally facilitated for each Corporate Director and their management teams
 - b. An externally facilitated risk workshop run to which all elected Members were invited.
 - c. Every corporate risk owner, Director and Corporate Director being formally required to review and sign off their risks via the JCAD corporate risk system on a quarterly basis with a formal audit trail to assure compliance.
 - d. A significant upgrade of the JCAD risk system and refresh training for all risk owners
 - e. The continuing development of the departmental risk champions network to assist risk owners with the embedding of the council's risk management framework.



32. The Committee, periodically, receives a report on either corporate rated 'red' risks or a 'deep dive' on a specific identified 'high rated' risk. Committee members by reviewing the current 'high rated' risks and conducting 'in-depth' reviews of risks have sought to scrutinise and

receive assurance on the application of the risk management framework in the organisation. An example of a risk register deep dive conducted by the committee was into Parking Services income targets at the February 2024 meeting.

Internal Audit

33. The Audit Charter, Audit Strategy and the Internal Audit Plan for 2024/25 were approved by the Committee on 14 March 2023.
34. During the year, the Committee received several reports from Internal Audit, updating them on Internal Audit progress against the plan and high-risk issues identified. This included the Head of Internal Audit's Annual Report for 2023/24 which provided an overall annual opinion of 'Limited' assurance and drew attention to those specific areas of weakness that were carried forward into the Annual Governance Statement. This is the 3rd successive year that a limited assurance has been provided and some of the specific areas of weakness have been recurring across all three years.
35. Internal Audit activity reports received by the Committee continued to identify areas where control environment improvement had been identified through audits.
36. Although there has been some improvement in results of formal audits completed so far and the work across the organisation since the Reports in the Public Interest were issued by the External Auditor, other indicators are suggesting that internal control still has some way to go to be properly embedded and it is anticipated that the assurance in this year's Head of Internal Audit's Report will again be limited.
37. A key measure of the Internal Audit service's effectiveness is the implementation of agreed actions to address the issues identified in audits. The target for implementation of actions is 80% for priority 2 and 3 actions and 90% for priority 1 actions. The stringent approach to the follow up process has continued with tight timescales for follow up work linked to the level of assurance.
38. The Committee has continued to emphasise the importance of implementing Internal Audit's recommendations and has supported Internal Audit in its work to ensure control weaknesses are effectively dealt with. The Committee has received regular updates on the status of outstanding recommendations, and where appropriate has requested further information.
39. The Internal Audit progress report to the Committee in November 2023 noted, in particular, the good progress in clearing historic follow ups, with only one remaining in 2018/19 and three remaining in 2019/20. The Committee will continue to monitor these.
40. Table 1 details the performance in this area in all follow up work completed since 1 April 2017 (up to 31 October 2023).

Table 1: Implementation of Agreed Actions to date

| | Target | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--|--------|---------|---------|---------|---------|---------|
| Percentage of priority one agreed actions implemented at the time of the follow up audit | 90% | 100% | 99% | 74% | 70% | 50% |
| Percentage of all agreed actions implemented at the time of the follow up audit | 80% | 80% | 93% | 84% | 89% | 71% |

Anti-Fraud

41. As part of the Committee's role of overseeing the antifraud and corruption strategy, the committee receives periodic updates on the work of the team.
42. During the year the Committee received regular updates on the counter-fraud work undertaken by the Counter Fraud Shared Service and notes the continued good results concerning proactive fraud identification and reactive investigation work, namely that between 1 April 2023 and 31 March 2024 the Anti-Fraud team had identified in total £3M savings comprising outcomes from 250 cases closed during the period.
43. In addition work on the Cabinet Office National Fraud Initiative Data sets generated additional cashable outcomes of £750,194 with a further notional estimated savings (for example recovered tenancies) of £1,488,747 with some further results still possible. In addition, development by the Council of the NFI Fraud Hub had generated very good preventative results for services such as pensions and blue badges (travel team).
44. Furthermore, that the Council has continued with its plan to improve counter-fraud awareness across the Council and to strengthen working with our partners. This has included:
 - Assisting neighbouring boroughs by providing expertise in the form of staff resources where they have gaps in expertise and generating income for Croydon Council.
 - Maintaining a learning and development programme, including face to face and e-learning opportunities.
 - Maintaining fraud reporting facilities, including a fraud hotline and dedicated email reporting facility.
 - The employment for the first time of a dedicated Fraud Prevention Officer
45. As a result of this work, high and improved levels of awareness of fraud have been achieved generally across the organisation over recent years. This has been evidenced by the level of referrals to the Counter Fraud Shared Service.
46. Some of the other proactive initiatives delivered during the year have included the routine vetting of all new housing succession and Right to Buy applications which have had very good results for the housing function.

47. A new case management system was introduced in April which has reduced costs, and improve functionality, reliability and reporting for the organisation.

External Audit

48. The Council's external audit service is provided by Grant Thornton (GT) under a contract let on Croydon's behalf by Public Sector Audit Appointments Ltd (PSAA). GT works in partnership with the Council ensuring its governance processes are effective and are invited to all of the Committee meetings.
49. During the 2023/24 a number of External Audit reports were presented to the Committee, as follows:
- S24 Statutory Recommendations, presented on 20 April 2023. GT concluded that they had a duty to report on the historically inadequate arrangements and capacity at the Council, most particularly in relation to the financial years 2019/20, 2020/21 and 2021/22, to prepare reliable financial statements and supporting working papers and concerns regarding the Council's financial sustainability and historic levels of reserves.
 - Interim Auditors Report for 2019/20, 2020/21 and 2021/22, presented on 20 April 2023. Although the external audit of the accounts for these years was delayed, Grant Thornton are obliged under the National Audit Office Code of Practice to report concerns promptly rather than waiting until the audit work is complete. This report fulfilled that requirement and reported five recommendations.
 - Interim Audit Findings Report for 2019/20, presented on 30 November 2023. The reported on the conclusion of the External Audit Value for Money work and provided an adverse conclusion.
 - The External Audit Findings Report for 2019/20, presented in March 2024. This provided a disclaimer opinion, which was explained as being due to the ongoing police investigations, following the RIPI2 and Kroll reports, and the unknown outcomes of these investigations.
50. The Government has been consulting on the introduction of a backstop for local authority accounts, in order to bring local authority accounts and auditing up to date. This proposes a framework to ensure that all existing accounts are signed off by 30 September 2024, with auditors disclaiming, qualifying or signing off all previous sets of accounts by this date.
51. As noted in paragraph 24 above, it is unlikely that the 2021/22 and 2022/23 will be finalised by 30 September 2024. The Council has made a special request to the National Audit Office to be exempt from the backstop.
52. The National Elections to be held on 4 July 2024 have paused the introduction of the backstop. This cannot proceed until a new Parliament

is formed and the new government has had the opportunity to consider whether it wishes to proceed with the proposals. The Committee will continue to monitor this and, where possible, provide support to help ensure that all accounts are fully audited. It will also continue to work with Officers and the External Auditor to progress the outstanding audits as a priority.

Financial Conduct and Compliance

53. During the year the Committee continued its oversight of the Dedicated School Grant (DSG) Deficit Management Plan, with update reports being presented to both the 21 September 2023 and the 1 February 2024 meetings, where it was demonstrated that the Council was performing well in meeting its agreed targets.
54. The Committee also received the annual Treasury Management Report, which reviewed the Council's Treasury Management activities for the year 2022/23, including:
 - Compliance with the Treasury Management Strategy Statement and Annual Investment Strategy as agreed by full Council.
 - Treasury borrowing and investment activity for the period 1 April 2022 to 31 March 2023.
 - Compliance with agreed Treasury and Prudential Indicators and the CIPFA 2017 Prudential Code for Capital Finance.

Enabling Scrutiny, Voice and Value for Money

55. The Committee has worked to strengthen its relationships and working relationships within the Council, for instance with the Ethics and the Scrutiny Committees, where the Chairs of this Committee and the Ethics and the Scrutiny Committees have attended a meeting each others Committee and been liaising during the course of the year.
56. The Chair of the Overview and Scrutiny Committee also attended the Audit and Governance Committee on 20 July 2023, where she provided an update on the work of Scrutiny.

Looking ahead to 2023/24

57. The Audit and Governance Committee will continue to assess, challenge, test and provide independent assurance on the robustness of the arrangements surrounding the Council's financial management, internal control, governance, and the delivery of the Council's recovery plans.
58. The Committee will continue to work closely with the Council's Improvement and Assurance Panel. This has been following the remit of the Panel changing, following the government announcement in March 2023 of extra powers being given to the Panel.

59. Further member training is scheduled:
- Financial reporting: To provide members with an overview of financial reporting, the Council's specific issues and how to obtain assurance.
 - Assurance Mapping: To review the Committee's terms of reference and confirm that the Committee is obtaining sufficient to satisfy the requirements of all aspects of its terms of reference.
60. The quality review of the Internal Audit function will also be conducted during 2024/25, which will include the 5 yearly External Quality Assurance (EQA) check required by the Public Sector Internal Audit Standards (PSIAS).
61. It is also intended that the Committee continues to look externally, through the use of benchmarking, peer and best practice reviews to improve and keep abreast of new developments, which will feed into ongoing member development sessions.