

**Audit and
Governance
Committee**

**Annual Report
2022/23**

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 governance arrangement to ensure the pace, trajectory and delivery of the Council's "Exit Strategy" agreed by 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 2023, replacing the former General Purposes and Audit Committee.
2. The inaugural meeting of the Audit and Governance Committee was on 7 July 2022, with the Committee meeting six times during the year.
3. This report details the work of the Committee during 2022-23, outlining the progress in:
 - o Internal Control;
 - o Governance;
 - o Risk management;
 - o Internal Audit;
 - o Anti-fraud;
 - o External Audit;
 - o Financial reporting
4. This report also looks forward to 2023-24 and highlights some of the changes and improvements planned.
5. 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 2022-23.

Table 1: Members of the Audit and Governance Committee 2022-23

| Role | Membership during 2022/23 |
|-------------------|----------------------------------|
| Independent Chair | Dr Olu Olasode |
| Vice-Chair | Councillor Matt Griffiths |
| Member | Councillor Claire Bonham |
| Member | Councillor Simon Brew |
| Member | Councillor Sherwan Chowdry |
| Member | Councillor Patricia Hay Justice |
| Member | Councillor Endri Llabuti |

| | |
|--------------------|--|
| Member | From 25 July to 14 December 2022 Councillor Danielle Denton From 14 December 2022 onwards: Councillor Nikhil Sherine Thampi |
| Independent Member | Vacant |
| Reserve Members: | Councillors: Sean Fitzsimons, Simon Fox, Mark Johnson, Enid Mollyneaux and Stella Nabukeera (and one conservative member vacancy.) |

6. Full Council, at the meeting held on 21 May 2022, approved amendments to the constitution, which included the removal of the General Purposes and Audit Committee and the instatement of the Audit and Governance Committee. The subsequent meeting of Full Council on 25 July 2022 amended the membership of the Audit and Governance Committee to include an additional Conservative party member, to better reflect the political balance of the Council.
7. The Committee has advertised for the vacant post of independent member, and following a shortlisting, commenced interviewing potential candidates in June 2023.
8. With a new committee, come new members. In addition, following the local elections in May 2022, some of these members were new to the Council.
9. On 1 June 2022, prior to the Committee's first meeting, all the committee members attended a learning and development session. Led by the Local Government Association, the session included:
 - Roles and responsibilities of the Committee (and officers reporting to it)
 - Understanding the control system
 - Risk management
 - Appropriate challenge and escalation.
10. The use of an 'actions tracker', initiated with the General Purposes and Audit Committee in 2021/22 was fully implemented. This helps monitor the implementation of actions arising from each Committee
11. 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.

The work of the Committee in 2022-23

12. The Audit and Governance Committee has 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.
13. 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

14. The Audit and Governance Committee continued to monitor progress in the Council delivering its various improvement action plans arising from the RIPI 1, RIPI 2, Croydon Renewal Plan, investigation and other reports. These were amalgamated in the 2021/22 Annual Governance Statement presented to the Committee at the meeting held on 19 January 2023.
15. This 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.
16. In addition, the Committee considered additional measures that should be taken to address the risk of non-compliance in future.
17. The Committee has also continued to seek to better understand and obtain assurance over the Council's financial governance, with reports being received on:
 - budget monitoring and the deficit recovery plan,
 - Oracle Fusion developments, and
 - The 'Opening the books' exercise.
18. Following the issue of the S114 notice in November 2022, the Committee obtained an update on progress at the 19 January 2023 meeting and assurance of the subsequent action plan arising from the S114 at its February 2023 meeting. The Committee continues to monitor and challenge the progress of these actions.
19. During the year, the Committee also approved the Council's whistleblowing policy and governance framework.

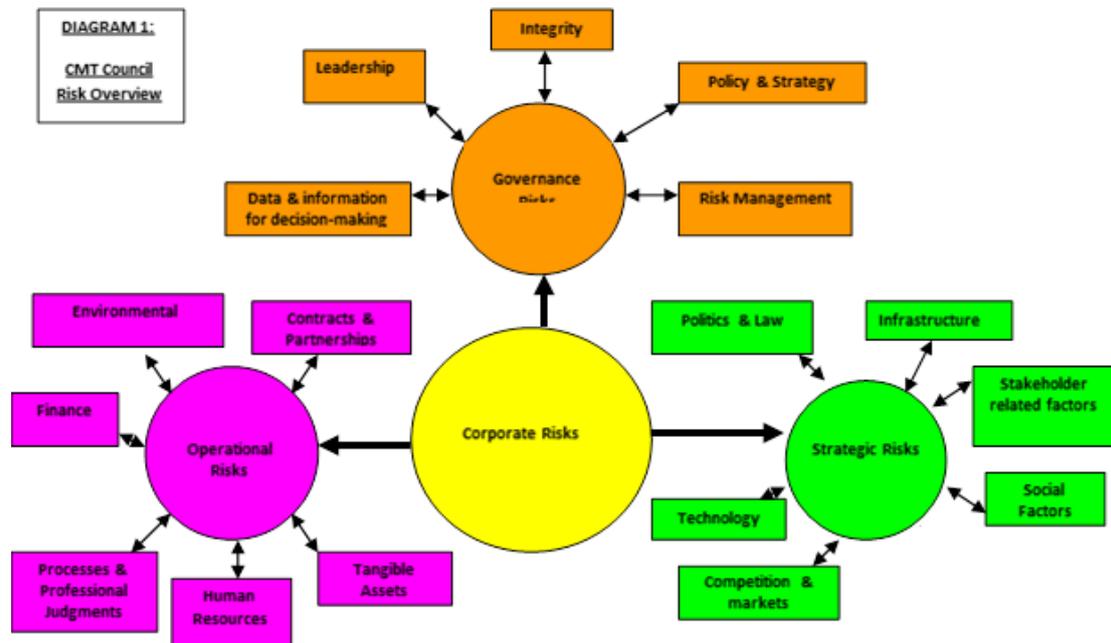
Internal Control

20. 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 (Appendix 1) including:
- Risk management;
 - Internal Audit;
 - Anti-Fraud;
 - External Audit.
21. The Committee leads this review by receiving, at every meeting, reports on these service areas.
22. 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

23. The Council has a formal risk management framework that is modelled on best practice activities operated within local authorities and other public sector organisations. This framework sets out the requirements and responsibilities for the management of risk for all employees and includes activities such as a formal quarterly review and reporting process for the Corporate Management Team (CMT) and Department Management Teams (DMTs).
24. 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. CMT formally reviewing all red risks on a monthly basis.
 - b. 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.
 - c. The commissioning of an independent 'Enterprise Risk Management Healthcheck Review and Action Plan' received by the committee at its November meeting

- d. The establishment of a new departmental risk champions network to assist risk owners with the embedding of the council's risk management framework.

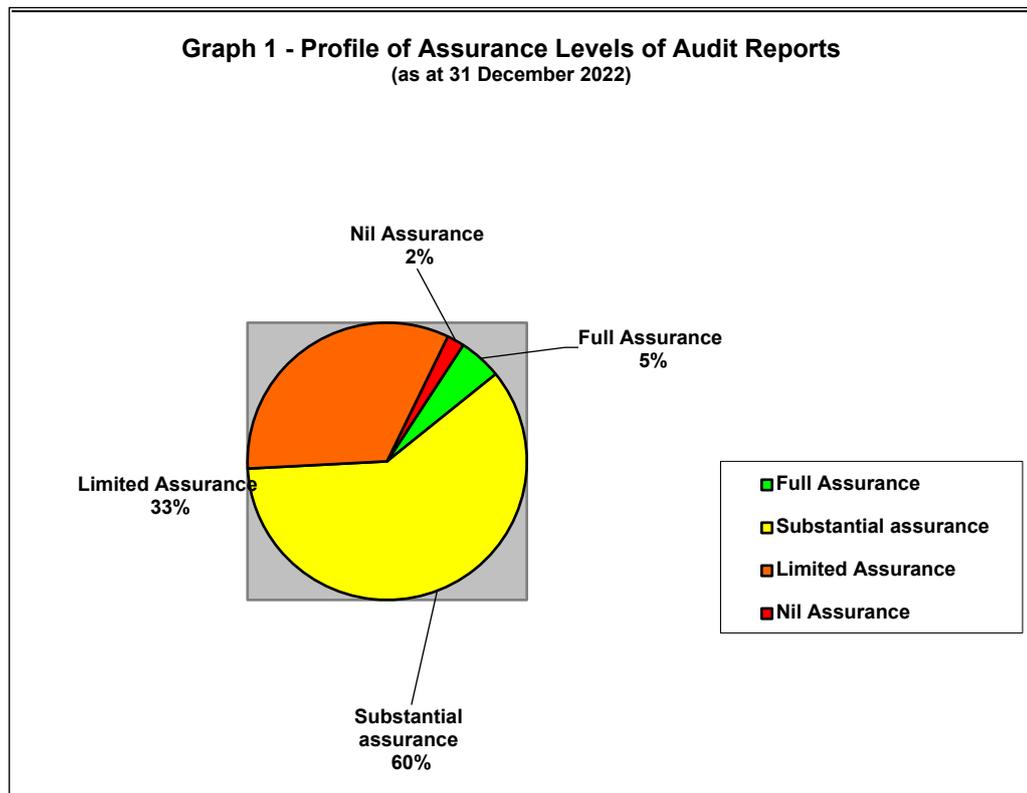


The Committee, periodically, receives a report on either corporate rated 'red' risks or a 'deep dive' on a specific identified 'high rated' risk. Committee members by reviewing the current 'high rated' risks and conducting 'in-depth' reviews of risks have sought to scrutinise and receive assurance on the application of the risk management framework in the organisation. An example of a risk register deep dive conducted by the committee was into ICT critical systems failure with a presentation given by the Chief Digital Officer & Director of Resident Access to the February 2023 meeting.

Internal Audit

25. The Audit Charter, Audit Strategy and the Internal Audit Plan for 2022/23 were approved by the Committee on 7 July 2022.
26. 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 2021/22 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.
27. Internal Audit activity reports received by the Committee throughout the year continued to identify areas where control environment improvement had been identified through audits and graph 1 shows that, as per the last Internal Audit update report of results up to 31 December 2022, 65%

of audits had full or substantial assurance. This is a significant improvement on the previous year (which was 45% at 31 December 2021).



28. Although the 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. These other indicators include, inter alia, the implementation of issues from several organisation wide audit reports that were limited or no assurance, and external reports published during the year identifying issues with internal control, governance and good practice.
29. 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.
30. 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.

31. Table 2 details the performance in this area in all follow up work completed since 1 April 2017 (up to 31 December 2022).

Table 2: Implementation of Agreed Actions to date

| | Target | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|--|--------|---------|---------|---------|---------|---------|
| Percentage of priority one agreed actions implemented at the time of the follow up audit | 90% | 100% | 98% | 94% | 69% | 50% |
| Percentage of all agreed actions implemented at the time of the follow up audit | 80% | 91% | 93% | 90% | 82% | 61% |

32. While there has been an improvement in the performance of actioning outstanding agreed actions, some older outstanding agreed actions have been taking longer than desirable to be actioned. This was specifically highlighted by the Committee at its February 2023 meeting, with an update on these older agreed issues requested at the March 2023 meeting. Although sufficient progress was demonstrated at the subsequent meeting, these were not all resolved and the Committee will continue to actively monitor these.

Anti-Fraud

33. 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.
34. During the year the Committee received regular updates on the counter-fraud work undertaken by the Council's Anti-fraud team and notes the continued good results concerning proactive fraud identification and reactive investigation work, namely that between 1 April 2022 and 31 March 2023 the Anti-Fraud team had identified in total over £1,427K savings comprising 96 successful outcomes. 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.
35. 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 Corporate Anti-Fraud Team.
36. The most significant development during the year, though, has been the establishment of a formal shared service for Anti-Fraud with the London Borough of Lambeth which went live 1 January 2023. This has already

brought about a number of significant benefits for Croydon in terms of resiliency and capacity of the service and efficiencies and costs savings by being part of a larger shared service model.

37. Some of the proactive initiatives already delivered with Lambeth colleagues have included the introduction of routine vetting for all new staff, (temporary and permanent) for any concerns of fraudulent or dishonest behaviour via the *CIFAS* system.
38. In addition resources have been redeployed as appropriate to high priority areas, for example by the introduction of routine screening for all housing tenancy successions to assist the HRA with making the best use of their housing stock for those residents most in need.
39. A number of new initiatives are planned some imminently for example the introduction of a new case management system in April which will reduce costs, and improve functionality, reliability and reporting for the organisation.

External Audit

40. The Council's external audit service is currently 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.
41. It should be noted that both the production of accounts, and external audit timescales continued to be delayed for 2019/20, with issues relating to the accounting for Croydon Affordable Homes/Croydon Affordable Tenures still not yet resolved. This meant that the accounts were not completed by the statutory deadline of 30 November 2020 and has delayed the subsequent audits for 2020/21 and 2021/22. The Committee has received regular updates on the progress in resolving the 2019/20 audit.

Financial Reporting

42. The 2020/21 accounts cannot be completed until the 2019/20 Audit is completed (refer to paragraph 31 above). This has resulted in the 2020/21 accounts not being completed by the statutory deadline of 30 November 2021 and therefore these have not yet been reported to Committee. Until the issues referred to in para 32 are resolved the timing for the audit of the 2021/22 accounts cannot be firmed up.
43. The Committee has received other financial reports, such as the update report on the Implementation of the Croydon Finance Review (April 2021), the Financial Performance report in October 2021 and a verbal update on the Council's Medium Term Financial Strategy (March 2022).

Looking ahead to 2023/24

44. 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.
45. The Committee will be working closer with the Council's Improvement and Assurance Panel. This is with the remit of the Panel changing, following the government announcement in March 2023 of extra powers being given to the Panel.
46. 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.
47. The quality review of the Internal Audit function will also be conducted during 2023/24, which will include the 5 yearly External Quality Assurance (EQA) check required by the Public Sector Internal Audit Standards (PSIAS).
48. 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.