

# Final Internal Audit Report

## Journals – Impact on Budget Management

### August 2023

Distribution: Corporate Director of Finance and S151 Office  
Director of Finance (Deputy S151 Officer)  
Interim Head of Finance  
Finance Business Partner  
Head of Corporate Finance  
Finance Manager

Assurance Level	Issues Identified	
No Assurance	Priority 1	3
	Priority 2	3
	Priority 3	0

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of the London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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**Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.**

**Contents**  
**Page****Executive Summary**

1. Introduction	3
2. Key Issues	4

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**Detailed Report**

3. Actions and Key Findings/Rationale	5
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**Appendices**

1. Terms of Reference
2. Definitions for Audit Opinions and Identified Issues
3. Statement of Responsibility

### 1. Introduction

- 1.1. Financial planning and budget setting is an important process for all organisations. Failure to forecast income and spend, and to monitor performance against budget, may impact on local authorities such as the Croydon London Borough Council (the Council) and its ability to achieve financial targets and lead to issues meeting objectives or even around ongoing financial viability. An essential element of monitoring budget performance and ensuring forecasts are accurate, is ensuring that the organisation has access to up-to-date financial data. Processes should be in place to ensure that journals are posted in line with a regular timetable, to the correct accounts, and are supported by adequate documentation.
- 1.2. The Council's Director of Finance and Deputy S151 Officer oversees the budget management process. Journals related to the budgets are raised in Croydon's financial system throughout the year by the Finance team. Croydon's budgeted income and expenditure for 2021/22 and 2022/23 are tabulated below:

Budget	2021/22 £'000	2022/23 £'000
Income	570,673	558,205
Expenditure	922,304	843,862
Net Expenditure	(351,631)	(285,657)

- 1.3. The Council currently has no specific policy covering the use of journals, and through Internal Audit Continuous Auditing reviews in 2021/22 and 2022/23, Internal Audit found several instances in which there was inadequate evidence to support manual journals in the Council's finance system, Oracle. Additionally, the Interim Head of Finance advised that there had been instances in 2021/22 and 2022/23 where manual journals had been raised inappropriately, in order to modify the apparent budget performance, or in some cases, to reallocate ineligible spending against ringfenced funds.
- 1.4. The Continuous Auditing reviews at the Council also identified issues with virements in both 2021/22 and 2022/23. In Q3-4 of 2021/22, testing found that four from a sample of 10 virements had no supporting evidence. The same testing in Q1-2 of 2022/23 found that seven of 11 virements had no supporting evidence.
- 1.5. The Council's external auditors (Grant Thornton) have yet to issue their report for the years 2019/20, 2020/21 or 2021/22 and we are therefore unable to verify whether concerns relating to journals have been raised within the management letter. The most recent auditor's report and management letter available is from the financial year 2018/19. However, in April 2023, Grant Thornton published an interim report in which it expected an 'adverse conclusion' to the 2019/20 report and finding of 'significant weaknesses' in the 2020/21 and 2021/22 reports.

## Journals – Impact on Budget Monitoring 2022-23

- 1.6. This internal audit had a specific focus on reviewing the adequacy and effectiveness of controls over monitoring and investigation of monthly journals raised in relation to the revenue budget. Additionally, while we have tested journals posted for a sample of five general ledger (GL) accounts for December 2022, due to the absence of a policy governing journals, or a definitive list of expected manual journals, testing of some scope areas has not been possible. We have not examined the preparation of service-level budget reports, as the internal audit's focus was on the integrity of journal data feeding into the budget monitoring process, rather than the budget monitoring process itself.
- 1.7. The audit was undertaken as part of the agreed Internal Audit Plan for 2022/23. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

## 2. Key Issues

- 2.1. The key issues identified are as below:

### Priority 1 Issues

No journals policy or procedures. **(Issue 1)**

Requirements for approval of journals are undefined. **(Issue 2)**

Purpose and frequency of journals is undefined. **(Issue 3)**

### Priority 2 Issues

Oracle does not record approval of journals. **(Issue 4)**

Working papers not uploaded to Oracle. **(Issue 5)**

Cost-centre variances not investigated or documented. **(Issue 6)**

There were no Priority 3 issues.

**3. Actions and Key Findings/Rationale**

**Control Area 1: Financial policies and procedures around raising journals and budget management process**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1
1	<p>The Director of Finance (Deputy s151) is restructuring the finance structure with the aim of increasing capacity for systems development, guidance and training. Once the structure is implemented, the draft journals policy and guidance will be updated and training provided to finance officers.</p>	<p><b>Expected Control</b></p> <p>Clear policies and procedures should be in place for journals, in order to ensure that the Council's expectations around when journals are to be used, and how these should be processed, have been clarified. Staff should receive training about the procedures to verify understanding ahead of being provided with functionality to process journals. There should also be a list of the regular manual journals that the Finance team expects to be posted each month.</p> <p><b>Finding</b></p> <p>Discussion with the Interim Heads of Finance, the Finance Business Partners and Head of Corporate Finance revealed that there was no policy in place governing the use of journals at the Council. The Financial Regulations did outline requirements for virements but did not go into detail about journals. The Head of Corporate Finance stated that he had been working on a new 'Journals Policy and Guidance'. A draft of this Policy was reviewed, which outlined the purpose of journals and the process for raising, approving and posting journals. However, this had not yet been finalised or approved, and at the time of fieldwork being carried out, Council staff did not have access to any policy governing the use of journals and there were no plans to deliver training when launching the policy.</p> <p>Additionally, it was noted that there was no definitive list of expected manual journals that would allow testing of whether manual journals had been posted in a timely manner. In order to select</p>

Journals – Impact on Budget Monitoring 2022-23

		<p>a sample for testing of manual journals, we had to select a sample of accounts, and inspect Oracle for each account to determine if any manual journals had been posted.</p> <p><b>Issue/Risk</b></p> <p>Where the purpose of journals is not clearly defined, and there are unclear procedures in place for how these are to be completed, there is a risk that journals may be used inappropriately. This could result in reputational damage to the Council and could lead to inefficient operations if journals are used to hide service-level budgetary problems, for example. Manual journals can be used to disguise misappropriated funds, and so there is an elevated risk of fraud where adequate controls are not in place to ensure journals are appropriately raised and approved and are posted to the correct accounts.</p>
Responsible Officer	Deadline	
Director of Finance (Deputy s151)	September 2024	

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2
1	<p>The practice in place is that one officer enters a journal into Oracle and a separate finance officer checks and posts it. The finance system (Oracle) does not currently have a workflow for entered journals to be sent to a separate officer to check/authorise/post. This will be looked at as part of the Oracle improvement programme to see if a system workflow can be added.</p> <p>The Director of Finance (Deputy s151) is restructuring the finance structure with the aim of increasing capacity for systems development, guidance and training. Once the structure is implemented, the draft journals policy and guidance will be updated and training provided to finance officers.</p>	<p><b>Expected Control</b></p> <p>The Council should have clearly defined responsibilities for the raising, approval and posting of journals. There should also be clear responsibility for oversight and scrutiny of journals at a corporate level. Thresholds for approval should be clearly defined, in line with the Council’s financial scheme of delegation, and the Council should ensure that these thresholds are consistent with its risk appetite. Where a manual journal impacts on a service-level budget, the budget-holder’s approval should be sought for the journal to be posted.</p> <p><b>Finding</b></p> <p>As explained in Issue 1 above, there was no written policy in place governing the use of journals at the Council, and the scheme of financial delegation did not refer to the use of journals. Discussion with members of the Finance team outlined that, as a result, approval requirements were not defined. While a sample test was conducted of journals posted in December 2022 and Oracle was observed to record the user IDs of the creator and last editor of manual journals, it was not possible to test whether approvals were accurate due to these responsibilities being undefined.</p> <p>The Council’s Financial Regulations outlined approval requirements for posting virements, but not for posting Journals. The Interim Head of Finance advised us that budget holder approval should be required where journals would alter spending/revenue against a service-level budget. This is because service-level budget holders are responsible for providing monthly budget monitoring and forecast reports, which feed into a Council-wide budget monitoring and forecasting report to Cabinet, and so manual journals that impact budget performance data would affect these forecasts.</p>

Journals – Impact on Budget Monitoring 2022-23

		<b>Issue/Risk</b>
		Where the need for approval is not clearly defined, there is a risk that manual journals may be raised, approved or posted inappropriately. As manual journals can be used to disguise misappropriation of funds, a lack of scrutiny and oversight of journal use could facilitate fraud.
<b>Responsible Officer</b>	<b>Deadline</b>	Where journals are approved without budget holder involvement, there is a risk that budget performance data is inaccurate, which may mask budget performance issues and result in inaccurate forecast data.
Director of Finance (Deputy s151)	September 2024	



**Control Area 2: Monthly journals**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3
1	<p>The Director of Finance (Deputy s151) is not aware of any journals processed in 2022-23 to “smooth” actual positions against budgets and has not been made aware of any evidence of this being the case in the past.</p> <p>The Director of Finance (Deputy s151) is restructuring the finance structure with the aim of increasing capacity for systems development, guidance and training. Once the structure is implemented, the draft journals policy and guidance will be updated and training provided to finance officers.</p> <p>The Council has reviewed the recharges between the General Fund and HRA, making adjustments in the 2019-20 and subsequent prior years’ accounts. CIPFA has provided training to service and finance officers in</p>	<p><b>Expected Control</b></p> <p>The purpose and justified use of journals should be clearly defined in a Journals Policy, to ensure that journals are not used inappropriately to transfer transactions to incorrect accounts.</p> <p>Additionally, journals should be processed according to a regular timetable, in order to ensure that all transactions are posted in a timely manner, providing the Council and individual services with up-to-date financial information for budget monitoring and forecasting purposes.</p> <p><b>Finding</b></p> <p>Through discussion with various members of the Finance Department, it became clear that there were differing expectations around when the use of journals was appropriate. The Interim Head of Finance advised us that manual journals should be used to reclassify spending that was originally classified incorrectly, and not as a routine way of “smoothing” budgets (we did not see evidence of this but were advised that this is taking place). Additionally, the Interim Head of Finance stated there have been instances where journals have been used to transfer spending to ringfenced budgets (such as the Public Health Grant), where the spending transferred may not be eligible. While we examined the Public Health England account (7130) as part of our sample testing for December 2022, we did not identify any manual journals posted to the account during this period. While there was agreement among the Interim Head of Finance, the Head of Corporate Finance, and the Finance Business Partners to whom we spoke that journals should be completed monthly, there was no guidance available that states this to be the case.</p> <p>Most journals posted in Oracle are system-generated, and these are posted each month automatically. In a sample of five accounts that we tested in Period 9 (December) of 2022/23,</p>

Journals – Impact on Budget Monitoring 2022-23

	<p>June and July 2023 on eligible expenditure for the HRA, and SLAs are being developed for 2023-24.</p> <p>A task and finish group (including the Corporate Director of Resources, Assistant Chief Executive and Director of Public Health) has been set up to review the charging of expenditure to the Public Health ringfenced grant and the updating of related SLA's.</p>	<p>only three contained transactions, and of these, only one contained manual journals. As the Finance team did not have a definitive list of all expected manual journals, we were not able to distinguish between accounts where no journals were required, and accounts where journals were required but not posted in a timely manner.</p> <p><b>Issue/Risk</b></p> <p>Where clear procedures are not in place that outline how often journals should be raised and for what purpose, there is a risk that journals will be used inappropriately. Additionally, where procedures do not put in place special controls for transfers to "ringfenced" accounts such as the Public Health Grant or Housing Revenue Account, there is a risk that ineligible spending will be recorded against these accounts, causing financial loss to the Council.</p>
<p><b>Responsible Officer</b></p>	<p><b>Deadline</b></p>	
<p>Director of Finance (Deputy s151)</p>	<p>September 2024</p>	

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 4
2	<p>The practice in place is that one officer enters a journal into Oracle and a separate finance officer checks and posts it. The finance system (Oracle) does not currently have a workflow for entered journals to be sent to a separate officer to check/authorise/post. This will be looked at as part of the Oracle improvement programme to see if a system workflow can be added.</p> <p>The Director of Finance (Deputy s151) is restructuring the finance structure with the aim of increasing capacity for systems development, guidance and training. Once the structure is implemented, the draft journals policy and guidance will be updated and training provided to finance officers.</p>	<p><b>Expected Control</b></p> <p>Journals are raised and posted in Oracle. There should be a clear audit trail of who raised and who approved a journal, which would allow a member of the Finance team to easily verify that a journal was appropriately approved. Alternatively, the Finance team should generate and analyse regular reports to confirm journals are being posted by expected approvers.</p> <p>A segregation of duties should be in place, such that it is not possible for the person who raised a journal to subsequently approve it.</p> <p><b>Finding</b></p> <p>A walkthrough of a sample of two Housing journals was conducted with the Head of Corporate Finance, to see what information was recorded for the journals in Oracle. It noted that Oracle did not actually record approval details. Oracle records which users created and last updated the journal, and for both journals we examined, these were different users. The Head of Corporate Finance explained that approval can usually be inferred if the journal has been posted (meaning no further changes are possible) and the last update was made by an officer responsible for approving the journal. However, it was noted that Oracle did not provide the names of users, only numeric usernames. While these can be verified by contacting the IT support team for a report of users, this step limits the effectiveness of the control, as a Finance team member cannot quickly verify the identities of the users who raised and approved the journal.</p> <p>While Oracle allows the Finance team to infer that a journal was posted by a user different to the individual who created the journal, the Head of Corporate Finance confirmed there is no systematic control to prevent a user from posting their own journal.</p>

		<p>The Head of Corporate Finance confirmed there was no other central record of approvals outside Oracle, meaning the user IDs recorded in Oracle were the only audit trail available for manual journals. If a log of approvals was maintained for a Service, it would be by the Service in a folder that the Finance team do not have access to. The manual journals we reviewed in our sample testing for P9 of 2022/23 were:</p> <ul style="list-style-type: none"> <li>• HRA0052 (created by user 615907, last updated by user 236496); and</li> <li>• HSG0058 (created by user 615907, last updated by user 236496).</li> </ul> <p><b>Issue/Risk</b></p> <p>Where journal approval is not centrally recorded, it may be difficult for the Finance team to verify that a journal was appropriately approved. This means there is an increased risk that inappropriate or incorrectly raised journals will go unnoticed and uncorrected, impacting the Council’s budget forecasts.</p>
<b>Responsible Officer</b>	<b>Deadline</b>	
Director of Finance (Deputy s151)	September 2024	

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 5
2	<p>The Director of Finance (Deputy s151) is restructuring the finance structure with the aim of increasing capacity for systems development, guidance and training. Once the structure is implemented, the draft journals policy and guidance will be updated and training provided to finance officers.</p>	<p><b>Expected Control</b></p> <p>Journals should be appropriately documented and evidenced to a standard that would allow a member of the Finance team, or an independent person such as an external auditor, to verify the legitimacy of the journal. For a manual journal, working papers should be completed that show clearly why a journal is being raised and justify the entries in the journal.</p> <p>Additionally, the Finance team should be able to oversee overall use of journals. The Finance team should be able to run reports of manual journals posted and undertake a proportionate level of quality checks to identify manual journals that are inappropriate, inaccurate or late, or which do not have satisfactory supporting evidence.</p> <p><b>Finding</b></p> <p>Oracle has a built-in feature to allow working papers to be attached to a journal. However, during walkthrough of a sample of two Housing journals (see Issue 4 for details), it was noted that working papers had not been uploaded and this functionality had therefore not been used. The Head of Corporate Finance informed us that this feature was very rarely used, and since taking up his role at the Council, he had not seen any journals with working papers attached in Oracle.</p> <p>The Head of Corporate Finance further stated that, while Service-level working papers should be produced, these were also not stored in a central drive that the Finance team have access to. Though the concept of a shared folder has been raised in the past, there has been pushback from Services who were concerned about the potential for sensitive information (such as names of residents receiving social services) to be contained in the working papers and therefore</p>

		<p>accessed by others across the Council. The Head of Corporate Finance further advised that the Council did not have a template standard working paper to be used when raising journals.</p> <p>The lack of working papers to explain and justify the use of manual journals has meant that we were unable to verify that the transactions contained in the manual journals in our sample had been allocated to the correct cost centres and accounts.</p> <p><b>Issue/Risk</b></p> <p>Where evidence to support journals is not prepared, or is not centrally stored, there is a risk that the Finance team may be unable to verify the appropriateness or accuracy of journals. This increases the risk that fraud or error may go undetected.</p>
<b>Responsible Officer</b>	<b>Deadline</b>	
Director of Finance (Deputy s151)	September 2024	<p>Additionally, where there is insufficient oversight of the journals process by the Finance team, or where IT systems do not facilitate quality assurance or provide an audit trail, there is a further risk that manual journals might be used for fraudulent purposes.</p>

**Control Area 3: Budget vs Actuals and Analysis of Major Variances**

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 6
2	<p>The Council has a financial performance framework which includes monthly reporting to Cabinet on both revenue and capital, comparing forecast spend and income against budgets.</p> <p>The Council needs to prioritise budget monitoring capacity on those areas of high value and high volatility. It is not appropriate to do full quality assurance on budget forecasts for low value and low volatility areas, given the capacity of finance officers who need to be focussing on value added activities. Finance will look at a risk based approach which would include detailed monitoring at periods (e.g. monthly, quarterly) depending on level of risk.</p> <p>The Director of Finance (Deputy s151) is restructuring the finance structure with the aim of increasing capacity for systems</p>	<p><b>Expected Control</b></p> <p>During the financial year, any significant variances between the budgeted/expected value of a cost centre or account, and its actual balance should be investigated, and an explanation should be recorded. This is a separate process to service-level and council-wide budget monitoring.</p> <p><b>Finding</b></p> <p>As part of the audit testing, an analysis of all cost centres was carried out, comparing the budgeted and actual balance as at February 2023 budget monitoring. It was identified that out of 1608 cost centres in total, there were 29 that had an actual spend of 0, against a non-zero budget. Additionally, 192 cost centres were found with a non-zero actual spend, against a zero budget. There was no single document providing explanations for cost-centre level variances, and the Head of Corporate Finance stated that they would have to investigate these individually to provide an explanation.</p> <p>It was also noted that there was a variance of ~£313m across all cost-centres (budget of -£43m vs actual spend of ~£271m). The largest part of this was made up of a variance of £278m on C60065 General Fund Financing. The Head of Corporate Finance explained that this was due to the way that Council Tax and NNDR revenue was accounted for: this income is collected in a fund in-year, which is recognised on the Council’s balance sheet, and then transferred as a revenue receipt at year-end. Other variances over £10m that we identified were:</p> <ul style="list-style-type: none"> <li>• C13789 : HOUSING BENEFIT (FINANCE) - £138m</li> <li>• C60010 : CONTINGENCY - £31m</li> </ul>

	<p>development, guidance and training. This will allow training for new budget holders as well as regular refreshing training for current budget holders. There is also an Oracle improvement programme which will look at improving the budget monitoring MyFinance module of Oracle to enable budget holders to better self-serve (with easier access to transaction information).</p> <p>It is usual practice for the Collection Fund Council Tax and Business Rates journals to be processed at year end on the ledger to align with reported collection to government and the GLA. Collection Fund reporting is intended to be included quarterly in the financial performance report from 2024-25.</p>	<ul style="list-style-type: none"> <li>• C11745 : THREE AND FOUR YEAR OLD FUNDING - £26m</li> <li>• C10996 : MAINTAINED SPECIAL SCHOOLS - £25m</li> <li>• C14857 : CAMERA ENFORCE MONITORING - £16m</li> <li>• C60050 : COUNCIL TAX ENERGY REBATE - £13m</li> <li>• C10684 : SEND PRE AND POST 16 INDEPENDENT PROVISION - £12m</li> <li>• C20355 : TENANTS' RENTS AND SERVICE CHARGES - HRA - £11m</li> <li>• C14815 : CENTRAL CONTROLLED ZONE - £10m</li> <li>• C12460 : LEARNING DISABILITY CARE PACKAGES - £-12m</li> <li>• C14884 : PARKING CONTROL - £-17m</li> <li>• C20380 : HOUSING CAPITAL CHARGES - HRA - £-23m</li> <li>• C16018 : CORONAVIRUS - £-25m</li> <li>• C60005 : INTEREST PAYABLE ON DEBT - £-28m</li> <li>• C60025 : AREA BASED GRANT (CENTRAL POOL) - £-45m</li> <li>• C10984 : DEDICATED SCHOOLS GRANT - £-66m</li> </ul> <p><b>Issue/Risk</b></p> <p>Where variances are not investigated and the explanations for variances recorded, there is a risk that fraud or error may go undetected. It is important that variances are investigated at a cost-centre level, as this can be used to disguise fraud, if the variances net out overall or at a service-level.</p>
<p><b>Responsible Officer</b></p>	<p><b>Deadline</b></p>	
<p>Director of Finance (Deputy s151)</p>	<p>September 2024</p>	



## AUDIT TERMS OF REFERENCE

### Journals – Impact on Budget Management

#### 1 INTRODUCTION

- 1.1 Financial planning and budget setting is an important process for all organisations. Failure to forecast income and spend, and to monitor performance against budget may impact on Croydon’s ability to achieve financial targets and lead to issues challenges meeting objectives or even around ongoing financial viability. In addition, where budgets set are unrealistic, budget holders may become demotivated or tempted to work outside of existing financial controls and the overall performance of the organisation may suffer.
- 1.2 The Interim Director of Finance and Deputy S151 Officer oversee the budget management process. Journals related to the budgets are raised in Croydon’s financial system at the end of the year by the Finance team. Croydon’s budgeted income and expenditure for 2021/22 and 2022/23 are tabulated below:

Budget	2021/22 £'000	2022/23 £'000
Income	570,673	558,205
Expenditure	922,304	843,862
Net Expenditure	(351,631)	(285,657)

- 1.3 This audit will have a specific focus on reviewing the adequacy and effectiveness of controls over monitoring and investigation of year-end journals raised in relation to the revenue budget. Its scope will also include review of cost centres where there is no actual expenditure or income accounted against the budget. Testing would be carried out for Period 8 of the current year.
- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2022/23.

#### 2 OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
  - Conduct sample testing of the identified key controls, and
  - Report on these accordingly.

## 3 SCOPE

3.1 This audit examined the following areas:





Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Financial policies and procedures around raising journals and budget management process	3	0	0
Monthly journals*	0	2	0
Budget vs actuals and analysis of major variances*	0	1	0
Management oversight and monitoring*	0	0	0
<b>Total</b>	<b>3</b>	<b>3</b>	<b>0</b>

\*Note that while some issues raised in this report have been raised under the Control Area 1, they relate to an absence of key controls that impacts all Control Areas.

**Definitions for Audit Opinions and Identified Issues**

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are constantly applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance of the controls which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and non-compliance that puts achieving the system objectives at risk,
	No Assurance	Controls are non-existent or extremely weak, leaving the system open to the high risk of error, abuse and reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require immediate attention by management to action and mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that still represent an exposure to risk and need to be addressed within a reasonable period.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, still provides an opportunity for improvement. May also apply to areas considered to be of best practice that can improve for example the value for money of the review area.

## **Statement of Responsibility**

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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