

# Final Internal Audit Report

## Croydon Companies: Governance & Companies House Compliance

November 2024

Distribution: Director of Commercial Investment  
Head of Finance  
Finance Manager  
Director, Culture & Community Safety  
Director of Finance & Deputy S151 Officer  
Corporate Director, Resources & S151 Officer

Assurance Level	Issues Identified	
Substantial Assurance	Priority 1	0
	Priority 2	3
	Priority 3	0

### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Forvis Mazars LLP at the request of 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.

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**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. Local authorities commonly have an array of commercial investments and charities in order to supplement their revenue, as well as to fulfil service objectives (such as affordable housing and the provision of green spaces).
- 1.2. Croydon Council operates several commercial investments through 18 Council companies and 12 freehold management companies wholly or partly owned by the Council. Companies controlled by the Council will be listed under the control of the “Mayor and Burgesses of the London Borough of Croydon”, which is the Council’s identity under company law.
- 1.3. All companies incorporated in the United Kingdom are required to file annual accounts with Companies House, in addition to a number of other statutory documents such as appointment of Directors. Annual accounts are due nine months after the end of the accounting year to which these apply.
- 1.4. Charities registered with the Charities Commission in England and Wales are required to submit an annual return to the Charities Commission within ten months of the end of the accounting year to which these apply.
- 1.5. Reporting requirements have not always been met in a timely manner by Croydon Companies: accounts for the financial year ending 31 March 2022 (which were due on 31 December 2022) were submitted late on 12 June 2023 for both “Croydon Holdings Ltd” and “London Borough of Croydon Holdings LLP”. In addition, compulsory strike-off action (whereby the companies would be forcibly dissolved) was gazetted<sup>1</sup> against the companies, – although eventually withdrawn - in 2022 and 2023 due to overdue reporting.
- 1.6. The filing deadlines and directors for Council Companies are recorded on a Council Companies Matrix. This spreadsheet covers all eighteen Council companies, twelve freehold management companies and nine charities.
- 1.7. The Council does not have specific risk registers and schemes of delegation for Croydon Companies.
- 1.8. This audit was undertaken as part of the agreed Internal Audit Plan for 2023/24. The objectives, approach and scope are contained in the Audit Terms of Reference at Appendix 1.

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<sup>1</sup> Gazetting is when a public notice is issued as the first statutory step in initiating strike off action against a company.

## 2. Key Issues

2.1 The key issues identified are as below:

### Priority 2 Issues

It was found that there was a lack of guidance in place outlining timelines and responsibilities for submitting annual accounts and changes to directors. **(Issue 1)**

The Mayor of Croydon's Charity Fund accounts were submitted 119 days late to the Charities Commission, according to the Charities Commission website. This compares to 64 days late for 2021/22 and 429 days late for 2020/21. **(Issue 2)**

The overdue reporting of annual returns at the Mayor of Croydon Charitable Fund was not discussed at the two Croydon Companies Supervision and Monitoring Panel meetings in February and March 2024 following the 31 January 2024 deadline. **(Issue 3)**

Priority 3 issues are included under item 4 below.

### 3. Actions and Key Findings/Rationale

#### Control Area 1. Governance requirements (including statutory requirements)

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 1				
2	<p>CCSMP continues to meet monthly and review and monitor the performance of the various companies that the Council has interest in.</p> <p>TOR needs to be amended to reflect the fact that the approval and submission of financial accounts sits with the various company Boards (CAH, BBB and CCMCL).</p>	<p><b>Expected Control</b></p> <p>Clear guidance is in place detailing the roles, responsibilities and processes for compiling year end accounts and filing these with Companies House or Charities Commission.</p> <p><b>Finding/issue</b></p> <p>The Head of Finance advised that there was no specific document in place outlining the responsibilities, processes for filing annual reports to Companies House or reporting on changes to directors.</p> <p>Furthermore, the Head of Finance advised that there was no specific internal timeline for making sure filings are completed on time, other than the relevant officers planning their work correctly.</p> <p>As noted in Issue 2 (see below), the Council submitted accounts and statutory notifications late for all companies that were tested as part of this review.</p> <p>The Terms of Reference for the Croydon Companies Supervision and Monitoring Panel (CCSMP) states that the Panel is responsible for monitoring financial returns.</p> <p><b>Risk</b></p> <p>Where clear guidance is not in place setting out responsibilities and timelines for submitting reports, and annual submissions are delayed as a result, there is a risk of</p>				
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Responsible Officer	Deadline					
Huw Lewis	Completed					

financial penalties and strike off action, causing financial loss and a potential loss of the Council's investment.

## Control Area 2: Preparation and Submission of Accounts

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 2				
2	<p>Previously the charities returns were subject to an individual in the Parks and open spaces teams. This led to a position that there was no monitoring of submissions to the Charity Commission of the eight charities in question.</p> <p>CCSP have now intervened, and the charity submissions are now being managed and completed by the Head of Corporate Finance to ensure that deadlines are met. The only charity that remains outside CCSP influence is the Mayor of Croydon charity fund – which is administered by the Mayor’s office.</p>	<p><b>Expected Control</b></p> <p>The accounts for Charities for which it retains responsibility are submitted on time. Governance arrangements are in place to help ensure that statutory deadlines are met, for example through the use of an agreed internal timetable with deadlines in advance of the statutory requirements.</p> <p>The Charities are governed through the Croydon Companies Supervision and Monitoring Panel and use a spreadsheet document (Croydon Companies Matrix) to monitor filing deadlines. This flag approaching deadlines to the Panel to help ensure that submissions are made on time.</p> <p><b>Issue/Finding</b></p> <p>A sample of five companies/charities were reviewed, chosen from the 30 companies and nine charities recorded on the Council Companies Matrix to confirm whether the 2022/23 accounts and returns were submitted on time. The review noted that the Mayor of Croydon’s Charity Fund accounts were submitted 119 days late to the Charities Commission, according to the Charities Commission website. This compares to 64 days late for 2021/22 and 429 days late for 2020/21.</p> <p>A review of the eight remaining charities, all relating to parks and open spaces, found that in all cases the annual returns to the Charities Commission due on 31 January 2024 had not been submitted on time. In six cases these were submitted late by an average of 101 days and in two cases (Woodcote Green Village Green and Wettern Tree Garden Trust) the submissions were outstanding and overdue by 145 days as at the time of Internal Audit (i.e. 24 June 2024.) The Head of Finance advised that the Council was planning to close these eight charities during 2024/25, however these were all still active at the time of audit.</p>				
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**Risk**

Late submissions of accounts may cause non-compliance with Charity Commission regulations and result in penalties, either financial or reputational.



## Control Area 4. Internal Reporting, Monitoring and Oversight

Priority	Action Proposed by Management	Detailed Finding/Rationale - Issue 3				
2	CCSMP does not control or manage the various entities and can only advise and remind the companies of the need for various filings to be made to ensure there are no penalties or risk of strike offs.	<p><b>Expected Control</b></p> <p>The Council monitors its companies and charities through the Croydon Companies Supervision and Monitoring Panel (CCSMP), where relevant Directors and Heads of Service meet approximately every six weeks to provide governance for the companies and charities of the Council.</p> <p>Instances of overdue submissions of accounts and returns are identified and addressed through these Panel meetings, and there is a further reporting mechanism to help ensure that the Council is aware of instances of non-compliance.</p> <p><b>Finding/Issue</b></p> <p>A review of the last 5 CCSMP minutes between September 2023 and March 2024 noted that while a range of companies and ongoing matters were discussed, there was no mention that the accounts for Companies and Charities were overdue at either the February or March 2024 meetings, even though testing found that several of these were overdue at the time (see Issue 2).</p> <p>It is not clear from the minutes whether CCSMP were made aware that these accounts were overdue, however, it is noted that whether timely submissions have been made or not is public information which can easily be found on the Charities Commission website.</p> <p><b>Risk</b></p> <p>Where there is a lack of oversight of approaching or missed deadlines, accounts and returns are submitted late to Companies House or the Charities Commission, leading to potential fines, or in serious cases, involuntary strike off action.</p>				
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## AUDIT TERMS OF REFERENCE

### Croydon Companies: Governance & Companies House Compliance

#### 1. INTRODUCTION

- 1.1 Local authorities commonly have an array of commercial investments in order to supplement their revenue, as well as to fulfil service objectives (such as affordable housing).
- 1.2 Croydon Council operates several commercial investments through companies wholly or partly owned by the Council. Companies controlled by the Council will be listed under the control of the “Mayor and Burgesses of the London Borough of Croydon”, which is the Council’s identity under company law.
- 1.3 All companies incorporated in the United Kingdom are required to file their annual accounts with Companies House, in addition to a number of other statutory documents such as appointment of Directors. Annual accounts are due nine months after the end of the accounting year to which they apply.
- 1.4 Reporting requirements have not always been met in a timely manner by Croydon Companies: accounts for the financial year ending 31<sup>st</sup> March 2022 (which were due on 31<sup>st</sup> December 2022) were submitted late on 12<sup>th</sup> June 2023 for both “Croydon Holdings Ltd” and “London Borough of Croydon Holdings LLP”. In addition, compulsory strike-off action (whereby the companies would be forcibly dissolved) was gazetted against the companies – although eventually withdrawn - in 2022 and 2023 due to overdue reporting.
- 1.5 This audit is part of the agreed Internal Audit Plan for 2023/24.

#### 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 for each controls / process being considered:
  - Walked through the processes to consider the key controls;
  - Conducted sample testing of the identified key controls; and
  - Reported on these accordingly.

### 3. SCOPE





- 3.1 This audit, focused on Croydon Companies: Governance & Companies House Compliance was undertaken as part of the 2023/24 Internal Audit Plan. The specific scope included the following areas and recommendations):

Control Areas/Risks	Issues Raised		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Governance Requirements (including Statutory Requirements)	-	1	-
Preparation and Submission of Accounts	-	1	-
Other Required Reporting (e.g. Appointments)	-	-	-
Internal Reporting, Monitoring and Oversight	-	1	-
<b>Total</b>	-	<b>3</b>	-

## 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Forvis Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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