



Lambeth Council

Annual Audit Letter to the
Members of the Council on the
2008/9 Audit

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Executive summary

This letter reports our conclusions from our audit of Lambeth Council (“the Council”) for financial year 2008/9. This was our first year as the Council’s appointed auditors. The letter’s main messages are:

Council’s financial statements	We issued an unqualified opinion on the Council’s 2008/9 accounts by the statutory deadline of 30 September.
Council’s pension scheme annual report	We issued an unqualified opinion on information in the Council’s 2008/9 pension scheme annual report in advance of the statutory deadline of 1 December.
Value for money conclusion	We issued an unqualified conclusion on the Council’s arrangements for securing value for money during 2008/9.
Use of resources assessment	We assessed that the Council was performing adequately in its use of resources.

The following areas for action are already being worked on by the Council. Based on our work we believe they are the most important areas that we have identified during the year. They are to:

- Deliver the financial recovery plan for the Housing Revenue Account to bring the Account back into balance;
- Further embed improvements made during 2008/9 to the in year management of the Council’s balance sheet, together with ongoing improvements to other estimation processes, to minimise the size and incidence of late movements between forecast and actual financial outturn;
- Improve compliance with internal control policies and procedures as measured through internal audit assessments and other internal monitoring arrangements; and
- Continue to develop the strategic management of the Council’s property assets, in particular strengthening the link between the Council’s plans for the use and development of its properties and its wider service and financial plans and arrangements for managing value for money in the use of its properties.

1. Introduction

The purpose of this letter

The purpose of this Annual Audit Letter (“Letter”) is to summarise the key issues arising from the work that we have carried out during the last year.

We have addressed this Letter to the members of Lambeth Council (“the Council”), as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.

Although this Letter is addressed to the members, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission website at www.audit-commission.gov.uk and should also be posted on the Council’s website.

Responsibilities of the Appointed Auditor and the Council and scope of our work

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

We have been appointed as the Council’s independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. This is the first year of our appointment as your auditor. As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission’s Code of Audit Practice (the Code). Under the Code, we review and report on:

- the Council’s accounts;
- the Council’s pension scheme annual report and accounts; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion).

In addition, we are also asked to assess the Council’s use of its resources. The Audit Commission use our judgements to score the Council on its use of resources. This in turn forms part of the Audit Commission’s Comprehensive Area Assessment performance framework which was published on 9 December 2009 on the new “One Place” website. We have worked closely with your Relationship Manager, Jan Hunter, and her team during the year to co-ordinate our work in support of the CAA process.

1. Introduction (continued)

We also carry our certification work on behalf of the Audit Commission on some of the larger grant claims made by the Council. This year, we are producing a separate report on the outcomes from the grants programme.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

2. Audit of accounts and pension scheme annual report

Key issues arising from the audit of the accounts

We reported separately to the Corporate Committee in September on the issues arising from our 2008/9 audit. We have issued an audit report, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate. We issued this report on 30 September 2009.

In 2007/8, the conclusion of the audit of the financial statements was delayed until June 2009. In that month, our external audit predecessor, in discharge of his duties under section 11(3) of the Audit Commission Act 1998, issued statutory recommendations which the Council was required to formally consider and respond to. The recommendations were made because the Council had had ongoing difficulties over recent years in producing reliable accounts and supporting working papers. The recommendations required the Council to consider and implement robust quality control processes which would ensure that reliable accounts were prepared for 2008/09.

We are able to report that the Council took a number of significant steps to improve its accounts closure performance which have been reflected in positive outcomes: the Governance Committee approved a full set of accounts by the deadline; we received a satisfactory and generally complete set of working papers supporting a good set of draft accounts ; we were able to issue our opinion on the financial statements, which was unqualified, by the deadline; officers were generally responsive to requests for additional information during the process; and the overall impact of audit adjustments on the General Fund and Housing Revenue Account were immaterial. We have concluded that the Council has satisfactorily addressed the matters which were the subject of the statutory recommendations made as part of last year's audit.

We have discussed a number of specific actions which the Council could take in 2009/10 to further improve the accounts and audit process and to reduce the potential incidence of misstatements and disclosure deficiencies. We note that whilst we have issued our opinion on the financial statements, our audit certificate, which confirms the closure of the audit, is outstanding at the time of writing as a result of open objections made by residents to the prior year accounts. These are being addressed by Kash Pandya, the previous external auditor.

Key issues arising the pension scheme annual report

This is the first year auditors have been asked to issue a separate report on the pension scheme annual report and accounts. We reported separately to the Corporate Committee on the outcome of our audit of the pension scheme financial information. Our report within the pension scheme annual report was unqualified and there are no significant issues to report here., except that best practice would see the 2009/10 pension scheme annual report finalised and reported alongside the Council's accounts.

3. Audit of use of resources and value for money conclusion

Scope of our work

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

We are also required to assess how well the Council manages and uses its financial resources by providing scored judgements on the Council's arrangements in three specific areas. This is known as the Use of Resources Assessment. The Audit Commission derives a Use of Resources score from our judgements which forms a component of the Comprehensive Area Assessment (CAA), a new performance assessment framework.

The assessment this year defined use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also placed new emphasis on commissioning services for local people and achieving value for money. It is therefore not directly comparable to last year's assessment.

Value for money conclusion

We issued an unqualified value for money conclusion for the 2008/9 financial year alongside our opinion on the Council's accounts. This drew on the evidence gained from the use of resources assessment.

This reverses the position last year where our predecessor's conclusion was qualified on the basis that the Council had not maintained a reliable fixed asset register during 2007/8. We concluded from our testing this year that this issue had been resolved in material respects.

Use of resources assessment process

We assessed the Council's arrangements for each of the following three themes:

- managing finances - focusing on sound and strategic financial management
- governing the business - focusing on strategic commissioning and good governance
- managing resources - focusing on the effective management of natural resources, assets and people

We reach judgements on these themes by considering specified key lines of enquiry (KLOE). Each KLOE and then theme was scored on a scale of one to four, with four being the best and one representing areas within the assessment category where a local authority did not meet the minimum expected standard.

3. Audit of use of resources and value for money conclusion (continued)

A detailed report explaining our assessment and highlighting areas for improvement has been issued to the Council.

Key findings arising from the use of resources assessment

We have assessed the Council's arrangements for use of resources in these three areas as follows.

Element	Assessment
Managing finances	2 (out of 4)
Governing the business	3 (out of 4)
Managing resources	2 (out of 4)
Overall assessment by the Audit Commission	2 (out of 4)

Note 1 is low; 4 is high

In respect of the managing finances theme, the key issue for the Council is the position of the Housing Revenue Account (HRA). Whilst the Council has been successful in re-building its General Fund to within the target range it has set itself and is establishing a track record for managing its overall General Fund spend within budget, the financial performance of the HRA has not been satisfactory. Balances have declined to a deficit of £12 million at the end of 2008/9 as a result of overspends over a number of years. The Council has prepared a recovery plan for 2009/10 to deal with historic under funding issues and its deficit position, but needs to demonstrate performance against this. Based on latest forecasts, the Council believes there remain risks to full achievement of the plan. In making our overall judgement for this theme, we also took account of late movements between in year financial forecasts and final outturn on both the General Fund and the HRA and the number of non trifling misstatements and disclosure deficiencies identified in the financial statements presented to us for audit.

Overall the Council is performing well in governing the business, but needs to take steps to ensure a more consistent level of compliance with its internal policies and procedures. An improved take-up of internal audit recommendations would provide evidence that the control culture is improved.

3. Audit of use of resources and value for money conclusion (continued)

In common with other local authorities, the Council did not find it easy to demonstrate outcomes in terms of reduced environmental impacts during 2008/9 , but was well positioned as a result of a range of initiatives it has in place to demonstrate real progress going forward. The Council is managing its property in an increasingly strategic way, but needs to complete the work it has started through development of service asset management plans to improve the co-ordination of its asset management strategy with service and financial planning processes. The Council is at an early stage of benchmarking the performance of its property portfolio to understand its base line performance. Indicators are in place for the collection of rental income and monitoring the level of rent arrears and void levels in respect of its commercial portfolio. The Council has also market tested its valuation and estate management and reactive and planned maintenance functions. Work is underway to develop a more comprehensive set of targets and implementation plans to deliver improvements in the value for money it achieves from its property portfolio.

4. Looking forward

We have met with members of Corporate Finance and also the wider finance team to discuss areas where the accounts and audit process can be further improved and have agreed with officers that we will consider work carried out by the Council in response to specific issues raised during the 2008/9 audit process early in the New Year to allow time for any comments we have to be fed back into the 2009/10 accounts preparation process.

We have also started discussions on the timing for our work on the opening balance sheet which the Council is currently preparing as part of its preparation of its first full set of accounts under International Financial Reporting Standards (“IFRS”) in 2011. This is a significant task for the Council which requires substantial input from a number of officers across the Council, not just from Corporate Finance, as well as the attention of members of the Corporate Committee. Based on information provided to us by the Council as part of a data collection exercise to support the Audit Commission in carrying out a national study on IFRS implementation, we would judge that the Council is currently well placed to make a successful transition to IFRS in 2011.

The Audit Commission has now issued its guidance to auditors on the approach to this year’s Use of Resources assessment. Key changes are that:

- The Council’s score for its use of natural resources will not be updated as part of this year’s assessment – instead last year’s score will be carried forward and will form part of the Council’s overall score for this year.
- We are asked to score the Council’s performance on workforce matters for the first time.
- There will be a lighter touch this year to the areas where the Council scored at least Level 3 in the last assessment.

The financial market problems and economic downturn over the last year created a significantly changed environment for the Council. We acknowledge the steps taken to respond initially to local issues that arose. Unfortunately the state of the public finances is likely to mean that financial pressures will continue for the foreseeable future. This will require the Council to challenge its value for money and activities in all areas. Accurate financial and cost information will be critical to making informed choices around services and resource allocation. We therefore suggest the Council should continue its work to understand its detailed costs and how these impact on service quality.

5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the “Briefing on audit matters” circulated to you in March 2009 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to members and this report is not necessarily a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Members of Lambeth Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP
Chartered Accountants

St Albans

22 December 2009

Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in the period 1 April 2008 to 31 March 2009 are as follows:

	Actual 2009 £'000	Audit Plan 2009 £'000
Accounts	380	370
Pension scheme	38	38
Use of resources and value for money conclusion	82	160
Total audit fees	500	568
Whole of Government Accounts	5	5
Grants – estimate	150	150
Total other fees arising from our appointment as auditor	155	155
Myatts Fields PFI scheme	244	N/A
Total non-audit fees	244	N/A
Total	899	N/A

In addition, one of our team was seconded to the Audit Commission, our predecessors as auditor of the Council, to assist them with the finalisation of their audit of the 2007/8 accounts. The fee for that secondment, which was met by the Audit Commission, was £20,000.

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