

Annual Audit and Inspection Letter

London Borough of Lambeth

Audit 2005/2006

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

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Our overall summary

Introduction

- 1 This Letter provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council, and inspections that have been undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The Letter is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The Letter is in a shorter format than in previous years because its focus is on our inspection role. The main issues from our audit work were reported in our Annual Governance Report (AGR), and presented to the Corporate Committee in September 2006. This Letter contains brief details of the main issues from the AGR, and the most important messages from our more recent audit work.

Summary of main findings

- 4 The Council is improving well and has been assessed as one star in the Audit Commission's CPA Framework. The Council continues to make rapid improvements in most services, in particular services for adults, benefits and environmental services. However, its performance in cultural services, in particular library services, is poor and, hence, the fall in star rating from a two to a one. Given the current pace and direction of improvement, the Council is well positioned to improve on its performance in the coming year.
- 5 We issued an unqualified opinion on the 2004/05 financial statements on the 13 October 2006. The opinion was delayed for over a year while clarification was sought on aspects of the Council's capital accounts. The Council achieved the earlier deadline of 30 June 2006 for preparation of its 2005/06 financial statements. The audit identified a number of significant errors and material technical accounting issues which are currently being resolved by your officers. We have yet to issue an audit opinion on the 2005/06 financial statements
- 6 We expect to issue an unqualified value for money conclusion on the Council's 2005/06 arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Council's overall finances are adequate though the Housing Revenue Account (HRA) balance is tight. There are plans to strengthen them over a three year period. Expenditure in the year was carefully monitored and the revenue and capital budgets for 2005/06 were largely delivered as intended apart from that on the HRA which was overspent by £5m.

- 8 The Council has ambitious and challenging plans for the next few years. It intends to invest significant sums of money into priority services, in particular children and environmental services, and regeneration schemes. It is also seeking to strengthen community cohesion within the borough and enhance its reputation. To deliver these changes, a new Chief Executive has been appointed and an extensive change programme put in place, including departmental restructuring. To ensure that these developments stay on track, the Council will need to continue to ensure that its risk and project management processes and performance management arrangements remain robust.

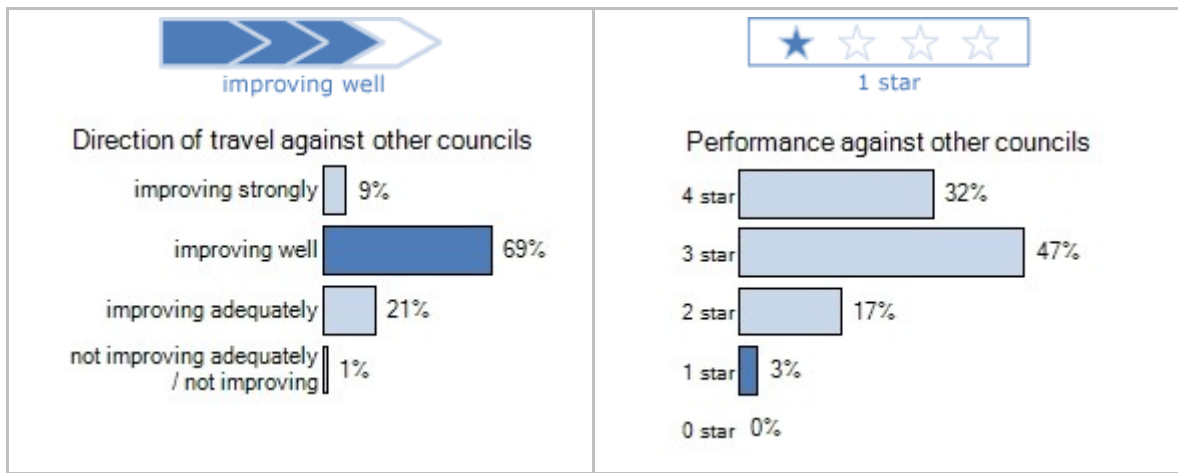
Action needed by the Council

- 9 The Council should:
- review and strengthen performance management arrangements to ensure that the current ambitious change programme stays on course;
 - continue to prioritise service improvements, in particular in cultural services;
 - ensure that its financial health position is continuing to improve;
 - improve the consistency of the quality of working papers supporting the Council's financial statements and resolve outstanding issues on the Council's 2005/06 accounts; and
 - implement individual recommendations arising from the audit and inspection reports issued.

How is Lambeth Council performing?

- 10 The Audit Commission’s overall judgement is that Lambeth Council is improving well and we have classified the Council as one star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Table 1 Lambeth is a one-star authority and is improving well



Source: Audit Commission

- 11 The detailed assessment for the Council is as follows.

Table 2 Our overall assessment - CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	1 star
Current performance	
Children and young people (OFSTED & CSCI)*	3 out of 4
Social care (adults) (CSCI)*	3 out of 4**
Use of resources	2 out of 4
Housing	2 out of 4
Environment	3 out of 4**
Culture	1 out of 4
Benefits (BFI)*	3 out of 4**
Corporate assessment/capacity to improve (not reassessed in 2006)	2 out of 4

(Note: 1=lowest, 4= highest)

* These assessments are based on the work of other inspectorates viz. OFSTED, Commission for Social Care and the Benefits Fraud Inspectorate.

**These services increased their scores from two to three stars during 2006.

Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 12 During 2005/06 the rate of service improvement has been impressive, with three quarters of service indicators improving. The Council has moved forward in priority service areas, particularly benefits administration, services for older people and environmental services (refer to table 2); however some culture services, in particular libraries, which require a longer lead in time to deliver demonstrable improvements are under performing. The Council is also making a significant contribution to wider community outcomes: resulting in reductions in reported crime, improvements in children's health and services to support older people at risk of hospital admission. Resident satisfaction has risen, and accessibility to services has been strengthened through an award winning call centre and website.

- 13 The Council has robust plans for improvement, including a new Council strategy and a highly praised Children and Young People's Plan. Agreed targets and supporting action plans are regularly monitored. There is an increased emphasis on effective risk management and alertness to fraud which has led to strengthened governance arrangements. The Council's 'Leadership Tomorrow' programme, the performance culture project and the organisational restructuring, which has recently been implemented, should all support the Council's continued service improvement.

Service inspections

- 14 We reported on two housing inspections in 2006:
- housing management; and
 - private sector housing.
- 15 The findings from these inspections are set out below.

Housing management inspection

- 16 Our housing management inspection covered tenancy and estate management, income management, resident involvement and progress made to meet the Decent Homes Standard.
- 17 Overall we assessed the Council as providing a 'fair' one-star service which has promising prospects of improvement. The service demonstrated a number of strengths including:
- good accessibility to the service and the ability of users to influence decision making affecting their homes;
 - well publicised customer focused information underpinned by a set of service standards developed in consultation with residents that include fairly challenging and realistic standards and targets;
 - comprehensive policies and practices to promote race equality and structures to combat racism; and
 - housing estates in general are well managed, clean and graffiti free, with dumped rubbish and cars being dealt with effectively.
- 18 The inspection also identified improvement opportunities including the need to:
- increase awareness of disability issues and the service provided to disabled and vulnerable customers;
 - make more effective use of performance information through additional appropriate support to tenant management organizations and enhanced void monitoring arrangements; and
 - improve customer satisfaction through a more prompt response to telephone enquires and customer complaints.

Private sector housing inspection

- 19** This inspection covered access and customer care, diversity, environmental health, home improvement agency (HIA) and grants administration, empty property service and value for money. We concluded that the Council is providing a 'fair', one star service that has promising prospects for improvement.
- 20** The service provided reflected good practice in a number of its arrangements including: good promotion of services using leaflets available in a number of different languages, print size and formats (eg Braille); good website; active private sector housing forum; good development of a number of effective partnerships between the private sector housing unit, HIA and empty property services and external service providers and stakeholders which have helped to deliver improved services to users.
- 21** The inspection also made recommendations for improvement including a need for:
 - better physical access for customers with physical disabilities;
 - quicker response times to customer calls to increase customer access; and
 - improved customer care and compliance with corporate standards through better reporting and use of performance information.

Governance and use of resources

Governance report on the 2005/06 financial statements

- 22 As your appointed auditors we presented our Annual Governance Report to the Council's Corporate Committee in September 2006. The Committee fulfils the role of those charged with governance. Our report included:
- proposed unqualified opinions on your accounts and those of the pension fund for the year ended 31 March 2005;
 - progress report on the audit of the accounts and those of the pension fund for 2005/06 and the reasons behind the delay in issuing an audit opinion on these statements; and
 - a proposed unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2006.

Audit of the 2004/05 financial statements

- 23 We reported in last year's Letter that we had not yet issued an opinion on the 2004/05 financial statements. This had been delayed pending the final resolution of a capital financing issue (commonly referred to as Adjustment A) that has arisen as a result of implementing the 'Prudential Code for capital finance in Local Authorities' on 1 April 2004. The updated position was reported to the Corporate Committee in September 2006 together with a number of material amendments to the draft accounts. At that time, your Section 151 Officer had sought special directions from the Secretary of State's (SoS) to reverse the impact of this amendment on the Council's reserves. Pending a response from the SoS, your Section 151 Officer had set aside a provision of £23.5m which he agreed would be applied to correctly account for these capital financing transactions if the SoS's Order was not secured. On this basis, I was able to issue an unqualified audit opinion on the financial statements and Pension fund accounts for the year ended 31 March 2005 on the 13 October 2006.

Audit of the 2005/06 financial statements

- 24** The Council did well to prepare the draft 2005/06 financial statements in line with the challenging earlier deadline of 30 June. The audit was largely complete at the time I reported to the Corporate Committee in September 2006. I reported:
- that the quality and availability of working papers for some key accounts, in particular fixed assets, deferred charges and elements of the HRA, continue to give rise to a large number of audit adjustments and requests for further information;
 - the significant errors we had identified which had been agreed with officers. These included amendments totalling £485m to reflect errors in valuing the housing stock, £84m in respect of capital assets disposed of or taken out of use and £61m in respect of capital expenditure excluded from fixed assets (none of which impacted on the Council's general fund, HRA or other usable balances);
 - areas of work still outstanding. The majority of these issues have now been resolved with the exception of two key issues which are currently under discussion with your Section 151 Officer. These relate to 'Adjustment A' and HRA capitalised expenditure:
 - I understand that the SoS has not yet made a determination in respect of the Council's request for special directions. Your Section 151 Officer has also invited me to reconsider my opinion about the accounting treatment of Adjustment A, given his view that there is an uncertainty about the need to fund for Adjustment A and that he has already made a provision of £23.5m in the 2005/06 accounts to meet these costs, if required to do so. I have taken further advice and reconsidered my views in the light of this advice. I have recently written to the Council to confirm my previous opinion that unless the capital accounts are amended to reflect Adjustment A they will not present fairly the financial position of the Council as at 31 March 2006 and its income and expenditure for the year then ended. Your Section 151 Officer is currently considering the Council's position on this issue.
 - In 2006 the Council capitalised some £7.4m of housing expenditure on voids and major repairs. We have reviewed a sample of these transactions and have not yet been able to obtain assurances that the expenditure concerned meets the required criteria for capitalisation. As a result, the charges to the HRA may be materially understated. I am currently discussing the Council's treatment of these items with your Section 151 officer.
- 25** The Council was also required to submit a Whole of Government Accounts consolidation pack for audit for the first time in 2006. Due to delays in completing the audit of the 2005/06 financial statements, the audit of these statements has still be completed.

Value for money conclusion

- 26 This year, for the first time, we were 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 conclusion is arrived at after assessing the Council's management arrangements across twelve specified criteria. The Council achieved all the criteria and we have concluded that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We will formally issue this conclusion with the audit opinion on the Council's 2005/06 financial statements when the outstanding issues have been resolved.

Best value performance plan

- 27 The Council prepared its best value performance plan in line with the statutory guidance and deadline of 30 June 2006. We completed our review of the information included within the plan and issued our report on the 14 December 2006. There were no issues or recommendations which we were required to report in connection with the plan.

Data quality and performance indicators (PI)

- 28 As part of our work for CPA, we audited nine performance indicators, and following amendments, gave an unqualified opinion on eight indicators. Our opinion was reserved in respect of the average re-let times of void properties PI due to a lack of reliable information available to support the dates properties had become void and were later occupied.
- 29 We also concluded that the Council's management arrangements for data quality are performing well and its data quality systems and processes are good. Our review identified several areas of good practice including the data quality champions operating at executive director, Member and departmental levels, ensuring compliance with relevant policies and procedures. A formal framework is in place for the collection and reporting of performance indicators and the working papers and audit trails provided in support of selected PIs illustrated best practice. Data quality controls could be further strengthened by their consistent application across all departments, the implementation of a data sharing framework for partnerships and formal data quality agreements in areas where information is provided by a third party.

Use of Resources judgements

- 30 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial Standing (including the strength of the Council's financial position).
 - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 31 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 3 Use of Resources: Summary findings

Element	Overall assessment
Financial reporting	2
Financial management	2
Financial standing	2
Internal control	2
Value for money	2
Overall assessment of the Audit Commission	2

(Note: 1=lowest, 4=highest)

- 32 Though the Council's overall rating for use of resources has remained unchanged in 2006, there is clear evidence that the Council is continuing to improve, in particular in its governance arrangements. The key issues arising from the audit, as reflected in the above judgements where appropriate are set out in a detailed report and include the following:
- public reporting is well developed including consultations with stakeholders. However, improvement of year end and qualitative processes for producing the financial statements and associated working papers are needed to ensure that the accounts presented for audit are free from significant errors;

- the Council's financial management arrangements are supported by medium financial strategies and generally effective budgetary control systems;
- the Council's overall financial standing is adequate. The HRA was overspent by £5m in 2005/06 and its reserves are limited. There are sound plans to strengthen the Council's overall finances over the next three years;
- the Council needs to maintain an up to date asset register and finalise local performance measures in relation to asset use as set out in its agreed asset management plan;
- the Council should continue to embed and develop risk management arrangements in relation to significant partnerships and the role of the Corporate Committee; and
- the Council should continue to develop a better understanding of the relationship between the high cost of some services and their performance.

Other Use of Resources work

Implementing the Bichard recommendation

- 33** Following the murders of Jessica Chapman and Holly Wells by Ian Huntley in Soham, Cambridgeshire, there was widespread public disquiet when it became clear that Ian Huntley had been known to the authorities over a number of years. The subsequent Bichard Inquiry into the child protection procedures in Humberside Police and Cambridgeshire Constabulary was particularly critical of data handling and vetting arrangements at the two bodies.
- 34** In 2006 we reviewed the scope and robustness of the Council's arrangements for implementing the recommendations arising from the Bichard report. The Council and its partners are committed to tackling the Bichard agenda. The Lambeth Information Sharing and Assessment protocol also provides a clear information sharing policy for partnership working and has been agreed by the Council and its partner agencies. In addition, training programmes are in place to raise awareness of various policies and arrangements such as record retention, reporting to the police, but it is not clear whether all staff are aware of training opportunities; whether there is comprehensive coverage of relevant staff; and attendance is not monitored.
- 35** We have made recommendations to strengthen and improve current arrangements which include the following actions:
- clarifying who holds overall responsibility for implementing the Bichard arrangements, establishing a steering group representative of relevant staff groups and developing an action plan to monitor progress;
 - implementing the Lambeth Information Sharing and Assessment protocol in full;

- producing an easily accessible summary for all relevant staff of the policy for reporting to the police incidences of alleged criminal offences or concerns regarding potential abuse;
- reviewing and updating documentation relating to the recruitment and selection of staff involved in work with children to ensure it reflects the most recent issues arising from the Bichard recommendations; and
- raising awareness and a better understanding of record retention arrangements.

Diversity management

- 36** Lambeth is one of the most diverse boroughs in London. The Council's improvement plan 2004 to 2006 identified diversity and equalities in a number of key areas, specifically in relation to improving the corporate culture and in the role of the Council in providing community leadership. As an issue it cuts across all the aspirations of the Council and failure to manage diversity could impact significantly on its ability to deliver the service improvements it aspires to.
- 37** In December 2005 we undertook the second stage of a review focusing on two service areas and their approach to diversity management. We also followed up progress made in corporate arrangements. We found that the Council had made significant progress in putting into place the framework to support better practice in relation to diversity. At the highest level leadership is evident and corporately the challenges that diversity management presents are being met. An infrastructure has also been built to support progress and is being used to further develop the Council's approach. In addition, diversity has been integrated into the structures of Lambeth First with the engagement of other partners and agencies.
- 38** At a service level we found examples of notable practice in relation to the services provided for particular groups within the community, which have targeted, outcome orientated activity. However, there were some significant weaknesses in the implementation of the Councils' aspirations in the services reviewed. We have made recommendations to address these through a range of actions that fall under the following areas:
- improving communications: Communicate and promote equalities standards, priorities and success stories;
 - changing culture: providing staff with the tools, training and confidence to challenge inappropriate behaviour;
 - building and sustaining linkages between the departmental Equalities Board/Steering Group and service units/frontline staff; and
 - performance information: making more effective use of information as a driver for change and as a measure of success.

Building schools for the future (BSF)

- 39** The Council's Building Schools for the Future programme comprises two phases. The schools involved in the first phase are; Elm Court, Michael Tippett, Stockwell Park and Elmgreen school (a new school). Phase 1 of the project has been given authorisation to proceed as a conventionally financed capital project. The total estimated cost for phase 1 is £86.6m and is due to be completed by September 2009. During 2006 we undertook a high level overview of the governance and consultation arrangements for the Council's BSF programme and the steps that are planned or have been taken to mitigate the key risks associated with Phase 1.
- 40** We found that the Council has established an appropriate programme environment. The Council's procurement arrangements are good; the project team's organisation has provided an effective level of scrutiny and management and developed a means to evaluate value for money. Areas where problems or difficulties have been experienced or anticipated have been identified by the team and solutions developed and implemented to address them.
- 41** The project has established a sound consultation framework, through the detailed work undertaken to identify key stakeholders, the production of a clear consultation strategy and the use of a variety of consultation methods. These arrangements, if successfully implemented, despite the very tight timetable, should provide a stable and controlled environment within which the programme will be well placed to achieve its objectives. We have recommended that the project team implements robust arrangements for capturing key lessons. The Council needs to ensure that the project team follow up and implement the required actions agreed including undertaking a formal evaluation of the effectiveness of its consultation arrangements. The Council is working to achieve these aims.

Regeneration - the revitalise programme

- 42** Lambeth - a borough with relatively high levels of deprivation - recognises the importance of economic viability, environmental sustainability and social cohesion in its Community Strategy and corporate priorities. In 2004, the Council introduced 'Revitalise', as a strategy for economic and community development and regeneration, based on the use of its assets. During 2006 we undertook a review which sought to assess whether the 'Revitalise' programme has the capacity to ensure the delivery of desired regeneration outcomes. The review methodology tested the 'Revitalise' programme itself, and four projects in the programme, against the Audit Commission's key lines of enquiry (KLOE) for regeneration inspections (published June 2006).
- 43** Our review concluded that 'Revitalise' provides evidence of achievement in the Council's work to regenerate the borough. The Council has started to build capacity and now has a delivery team in place, which can be used for the project management of major capital projects. This has allowed service departments to focus on their task of delivering to users while at the same participating in the development of better facilities for the borough's residents and users.

- 44 While 'Revitalise' is making good use of project management tools it still needs to link the use of project management to a wider regeneration strategy. The Council is now starting to develop its approach to regenerating the borough. 'Revitalise' (renamed the Physical Regeneration Team in autumn 2006) needs to sit within this strategic framework, if officers are to make the connections vital to meeting the needs of all the borough residents. Our recommendations to strengthen existing arrangements are currently being considered by the Council.

Conclusion

- 45 This letter has been discussed and agreed with the Leader of the Council, Chief Executive, and Executive Director of Finance and Resources. A copy of the letter will be presented at the Corporate Committee on 14 May 2007.
- 46 The Council has taken a positive and constructive approach to our audit and inspection and I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

- 47 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Kash Pandya
Relationship Manager
March 2007