

Audit and Inspection Plan

London Borough of Lambeth

Audit 2004-2005

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

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Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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Key messages

Council performance

- 1 The Council has had another successful year. Significant progress has been made in improving how the Council is run. This is reflected in the recently published Comprehensive Performance Assessment (CPA) update score which has moved the Council from one-star to two-star, up one category. The challenge to the Council remains to utilise its strengthened corporate arrangements to increase its capacity in order to sustain improvement in frontline services to bring them all up to an excellent standard.

The accounts

- 2 We have yet to issue an audit opinion and certificate on the 2004/05 statement of accounts due to a material uncertainty in the accounts which has not been resolved. The timeliness of the accounts closedown and the quality of working papers have improved in all areas except capital accounts where deficiencies remain.

Financial position

- 3 As a consequence of the uncertainty arising from the audit of the 2004/05 financial statements, the Council's current financial position cannot be fully assessed. The planned strengthening of revenue balances has not been realised over the past year. The underlying causes of capital underspending and profiling issues require the attention of members. The Pensions Fund deficit is being addressed over a period of years and will necessitate the continuing commitment of the Council if it is to be successful.

Other accounts and governance issues

- 4 We have assessed the Council's systems of internal financial control as adequate, meeting minimum requirements.

Excepting the incidence of a major fraud in a housing improvement contract in the year, the Council had generally adequate arrangements in place to promote probity and propriety in the conduct of its business, although it still has some way to go in embedding an anti-fraud and corruption culture within the organisation.

Action needed by the Council

- 5 The key actions needed by the Council to address issues arising during the course of our audit are as follows:
- continue to align management capacity to needs to ensure delivery of the Council's improvement plan, in particular the major investment programme;
 - resolve the material uncertainty in the 2004/05 financial statements as a matter of urgency and address any resultant impact on the Council's financial standing;
 - improve the management of the capital programme to deliver all major schemes on target and to optimise investment;
 - ensure that no other frauds may have taken place as a result of the failure to comply with internal controls; and
 - expedite the review of procedures to ensure property disposals by means other than competitive arrangements are at best consideration in all cases.

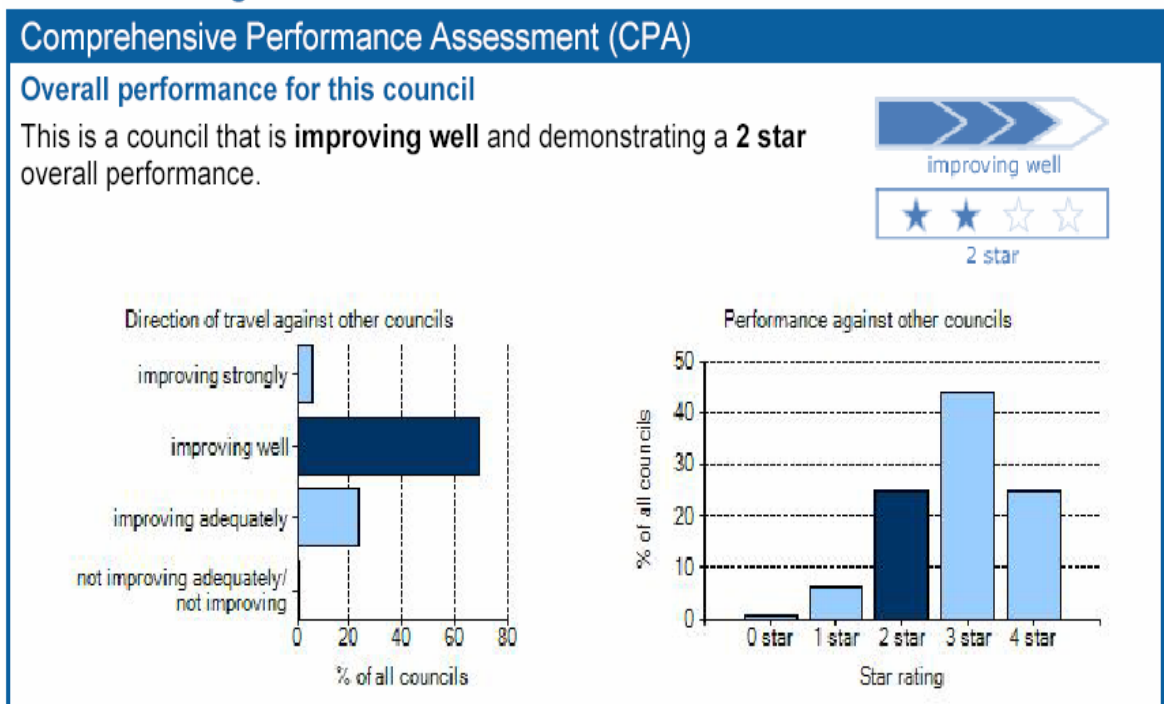
Performance

The Council has had another successful year. Significant progress has been made in improving how the Council is run. This is reflected in the recently published Comprehensive Performance Assessment (CPA) update score which has moved the Council from one-star to two-star, up one category. The challenge to the Council remains to utilise its strengthened corporate arrangements to increase its capacity in order to sustain improvement in frontline services to bring them all up to an excellent standard.

CPA scorecard

- 6 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies, CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is two-star.

Figure 1



- 7 We reached this overall rating by looking at the following.
- What progress has the Council made in the last year – direction of travel?
 - How the Council's main services perform – service performance?
 - How the Council uses its resources – use of resources?
 - How the Council is run – Council ability?

What progress has the Council made in the last year

- 8 The Council is improving well. It is delivering improvements across the majority of service areas. Over 65 per cent of performance indicators have improved since 2002/03 and educational achievements, benefits, waste collection, recycling and the looked after children's services have all improved. Good progress has been made on meeting government targets relating to accessing services electronically. Areas requiring further improvement include housing, which remains high spending, and a continued emphasis on value for money.
- 9 Joint community outcomes on reducing street crime and drug treatment programmes are bringing positive results through multi-agency working, although crime is still high. The ambitious 'Revitalise' programme to deliver regeneration across the borough remains on target and funding is in place for two city academies. Access to services has been further enhanced by opening a central service centre and multi-agency service centres are due to be rolled out across the borough during 2006.
- 10 The Council has robust plans to monitor and report progress on its 'improvement plan'. Whilst the management capacity to deliver plans is currently in place, this needs to be maintained to continue the strong progress Lambeth Council is making.

How the Council's main services perform

- 11 We have reviewed the core service areas shown below. Each service is scored on a scale of 1 to 4, with 1 being the lowest and 4 being the highest.

Table 1

Service	2005 Score
Benefits – The Council's performance in providing housing and council tax benefit services. The assessment is made by the Benefits Fraud Inspectorate (BFI) and is based primarily on achievement against the 2005 Housing benefits/council tax benefits performance standards.	2
Children and young people – The Council's performance in providing children's services. The joint assessment is made by the Commission for Social Care Inspection (CSCI) and the Office for Standards in Education (Ofsted) following a review of Council overall performance and key indicators.	3
Culture – The Council's contribution to culture services and outcomes as assessed by the Audit Commission. The assessment combines culture inspection reports with a range of performance indicators. For 2005, the overall score used for CPA will be the higher of the 2005 score or the score from the 2004 libraries and leisure block score.	2
Environment – The Council's performance, as assessed by the Audit Commission, in providing environmental services. The assessment is made by combining environment inspection reports with a range of performance indicators.	2
Housing – The Council's performance, as assessed by the Audit Commission, in providing community housing and, where applicable, housing management services. The assessment is made by combining housing inspection reports with a range of performance indicators.	2
Social care (adults) – The Council's performance in providing adult social care services. The assessment is made by CSCI following a review of Council overall performance and key indicators.	2

How the Council uses its resources

- 12 The use of resources is a new assessment which looks at how the Council's financial management integrates with strategy and corporate management, supports the Council's priorities and delivers value for money. It will be carried out annually, as part of the Council's external audit and forms part of the CPA framework.
- 13 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 2

Element	Assessment (out of 4)
Financial reporting	1
Financial management	2
Financial standing	3
Internal control	2
Value for money	2
Overall	2 out of 4

*Scoring: 4 = well above minimum requirements - performing strongly
 3 = consistently above minimum requirements - performing well
 2 = at only minimum requirements - adequate performance
 1 = below minimum requirements - inadequate performance*

- 14 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry.
- 15 The most significant areas we identified where further development is needed are as follows.
- Address the issues in financial reporting by ensuring that the accounts presented for audit are free from material errors and are supported by comprehensive working papers.
 - Develop financial management by delivering departmental spend to budget and keeping the asset register up-to-date.
 - Further strengthen the Council's financial standing by developing a policy for reserves and balances that is clearly linked to an assessment of risk and need whilst continuing the development of initiatives to improve revenue collection arrangements.

- Enhance internal controls by extending the roll-out and embedding of risk management Council-wide with appropriate training for relevant staff and members. The various fraud initiatives currently under development need to be carried out to embed an anti-fraud and corruption culture and, in particular, strengthen anti-fraud and corruption controls highlighted by forensic investigations.
- Improve value for money by prioritising and successfully tackling areas identified as high cost. This will require comprehensive cost and comparative performance information to be produced and reviewed systematically across all services. Procurement practice needs to be revised to ensure the benefits of cross service procurement.

How the Council is run

- 16 In corporate assessments, we assess how the Council is run against three criteria as follows.
- What is the Council, together with its partners trying to achieve?
 - What is the capacity of the Council, including its work with partners, to deliver what it is trying to achieve?
 - What has been achieved?
- 17 Corporate assessments carried out from 2005 onwards have changed. There is now a greater focus on leadership, partnership working, value for money and the achievement of local priorities. The scoring framework has also been revised and for this reason they are not directly comparable with corporate assessments in previous years. All councils will have the new-style corporate assessment by 2008, as part of a rolling programme of corporate assessments and joint area reviews. Until these have been completed the overall CPA category for a council that has a new-style corporate assessment will be based on either its new or the previous corporate assessment score, whichever is the higher.
- 18 The score used for the Council's 2005 CPA is derived from the 2004 corporate assessment when it was assessed as 2 out of 4 for 'council ability'. A new assessment for the Council is due to be carried out in 2007.

Other performance work

Review of customer service centre

- 19 As a part of its commitment to improving and modernising service delivery using e-government as an underlying agent for change, the Council undertook to expand the contact centre it opened in March 2004 to achieve savings and service improvements in telephone based services. The Council expects that the new infrastructure will also realise benefits in the Housing reframing, joint service centres and accommodation strategy projects.

- 20 Our review sought to assess whether the Council has a properly developed business case and has taken appropriate account of the financial and operational implications of its investment.
- 21 Our report concluded that the Council has established a strong business case for developing the contact centre. The ICT infrastructure has been designed to provide capacity for current and future requirements, both in terms of the volumes of contacts handled and the range of services provided. The funding model is not dependent on the achievement of financial savings, although these are expected over the longer term.
- 22 The contact centre's performance is managed against targets and external benchmarks from other, similar authorities who share data and experience.
- 23 The development and success of the contact centre provides a good foundation to support the housing restructuring project. The introduction of the five joint area offices in the coming year will require further planning and analysis of the likely customer demand and the optimum means of delivering services as they will introduce another channel for customer contact. However, the Council is already carrying out detailed assessments and planning, including customer surveys to establish likely patterns of demand.

Review of diversity management - phase 1

- 24 Lambeth is one of the most diverse boroughs in London. The Council's Improvement Plan identifies diversity and equalities in a number of key areas and they are highlighted specifically in relation to improving the corporate culture, and in the role the Council has 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 the Council's ability to deliver the service improvements it aspires to.
- 25 The Audit Commission produced a report in January 2004 'The journey to race equality' which provides a major source of evidence of how local organisations are struggling with race equality. The models developed through the research identify key building blocks, barriers to implementing them and potential actions to 'breakthrough' these barriers. We have used this model to help inform our work.
- 26 Our review was undertaken in two phases. Initially we assessed the Council's strategic approach to managing diversity and concluded that it has worked hard to improve practices in relation to equalities and diversity. The Chief Executive, Leader and Deputy Leader have all taken key roles in 'championing' diversity, and the infrastructure has been developed to support progress. The Council sees diversity as a route through which to improve services, and the concept of mainstreaming is integral to all activity in this area. There is an acknowledgement there is still much to do.

- 27 In our interim report we highlighted some key areas which still require attention. The Council's priorities for diversity and equalities are not yet clear, and while the draft strategy goes some way to improve this, it does not fully address the issue. We noted significant problems with the reliability of performance data, which create difficulties when trying to accurately assess the Council's performance in this area. We could not be assured that implementation is consistent across the Council. Accordingly, it was agreed that phase two of our review would focus on assessing the extent to which the strategy was embedded in service delivery. This work is scheduled to be reported in January 2006.

Review of partnership working

- 28 Partnership working has the potential to improve service quality and cost effectiveness and can also be a way of ensuring the best use of scarce resources. Local authorities are increasingly involving a range of other organisations, including the voluntary and community sectors in developing policies and providing services. The Council is currently engaged in a diverse and complex set of partnership arrangements, including its Local Strategic Partnership, Lambeth First, and is developing others. The corporate assessment in December 2004 found that although there had been a fundamental improvement in partnership working since 2002, a performance management framework had yet to be embedded.
- 29 We have undertaken a review, in two stages, to assess the effectiveness of the arrangements currently in place for partnership working, and how well the Council is managing them. Our stage one report in December 2005 provided a diagnostic of partnership working.
- 30 There is a clear commitment to effective partnership working within the Council and its key partners and progress has been made in a number of priority areas, such as education and crime reduction. Relationships with the voluntary and community sector are improving as is wider community engagement; however, further capacity building is needed. There remains a perception amongst partners that partnerships are 'council centric'; with the Council providing the dominant share of resources to support partnerships and being seen as setting the agenda and priorities.
- 31 In the report on stage one of the review, we have made recommendations for improvements on these and other issues to the Council's partnership arrangements that are being discussed with officers currently. It is intended that stage two of this audit will take place in 2006/07 in the form of a follow-up of progress made against the recommendations and a more detailed probe into agreed areas.

Review of integration of children's services

- 32 The Children Act 2004 placed the responsibility on local authorities, together with the primary care trust (PCT) and other health bodies, the police and independent sector providers for commissioning and delivering integrated services for children. Alongside the integrated arrangements, local authorities are required to have a lead councillor for children and a director for children's services with overall responsibility for education, children's social care and other services and policy relating to children. The Council retains corporate parenting responsibility for children in the public care. Councils, with partners, are required to produce a single children's plan (except 'excellent' authorities) and to develop a Local Safeguarding Children's Board to replace the Area Child Protection Committee.
- 33 For councils, this required considerable restructuring of functions and responsibilities, to disaggregate children's services from other generic service provision, to enable joint commissioning and increased integrated service provision.
- 34 Our review of the Council's progress in implementing the Act's provisions concluded that it is making good progress with its partners towards achieving integrated services for children and young people for whom they have responsibility and is on target to achieve the requirements of the Act. Strong leadership and improving performance and financial management have contributed to this progress. We did identify opportunities to improve capacity to deliver services by increasing human and financial resources and by engaging more with the voluntary sector and parents and carers of disabled children as the Council has a duty to co-operate in the provision of all children's services.
- 35 An action plan to implement the recommendations from our review has been agreed jointly with Lambeth PCT.

Performance information

- 36 We gave an unqualified opinion on your best value performance plan (BVPP) on 1 December 2005. This is an improvement on prior years and reflects the importance that the Council has placed on the accuracy of its performance information.
- 37 Best value performance indicators (BVPIs) continue to be one of the key measures for monitoring service delivery and an important part of the CPA process. Although our audit identified eight BVPIs which were materially misstated these were amended and we were able to certify them without reservation. This is a marked improvement from the previous year, when we issued reservations on 15 BVPIs and found 20 which required amendment.
- 38 The progress made to date should be maintained by reviewing the quality control process so as to minimise the number of BVPIs that require amendment, and by keeping abreast of any changes in the BVPP requirements for next year.

Other Audit Commission inspections

- 39 The Supporting People programme is the Government's long-term policy to enable local authorities to plan, commission and provide housing related support services which help vulnerable people live independently. It brings together significant funding streams into a single pot under the administration of local authorities.
- 40 We inspected the Council's Supporting People programme in conjunction with the Commission for Social Care Inspection (CSCI) and Her Majesty's Inspectorate of Probation (HMIP).
- 41 We assessed the Council as providing a 'good', two-star service. There are effective governance arrangements in place with a skilled and experienced Supporting People team and a comprehensive five-year strategy and action plan. The Support Needs Assessment and Placement Team is providing an effective gateway into supported housing services together with procedures for service reviews which include a focus on achieving value for money. Financial management arrangements are sound and targets within the savings plan to address reductions in funding are being met.
- 42 However, the inspection identified recommendations that could improve:
- access to services and standards of customer care;
 - the opportunities for service user involvement;
 - the effectiveness of governance arrangements; and
 - the efficiency of procedures for assessing service providers.
- 43 The Council has accepted these recommendations and their implementation has commenced.
- 44 We also judged that the Supporting People programme has excellent prospects for improvement.

Working with other inspectorates and regulators

- 45 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
- Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Local Government Office contact.
- 46 We share information and seek to provide 'joined up' regulation to the Council. During the last year, the Council received assessments from OFSTED, CSCI and BFI which are incorporated in the CPA scorecard in paragraph 7.

Accounts and governance

We have yet to issue an audit opinion and certificate on the 2004/05 statement of accounts due to a material uncertainty in the accounts which has not been resolved. The timeliness of the accounts closedown and the quality of working papers have improved in all areas except capital accounts where deficiencies remain.

Audit of 2004/05 accounts

- 47 We have yet to issue an audit opinion and certificate on the 2004/05 statement of accounts due to material uncertainty in the complex accounting for and financing of loan repayments dating back several years. We are working closely with officers to resolve the uncertainty.
- 48 Continued progress has been made in improving the timeliness of the accounts closedown. The quality of working papers has improved in some areas but deficiencies remain in capital accounts, for example deferred charges. These led to several material amendments necessary to the audited accounts which have reduced revenue balances by £13 million. This re-emphasises the need for robust quality assurance processes in preparing financial statements.

Report to those with responsibility for governance in the Council

- 49 We are required by professional standards to report to those charged with governance (in this case to the Corporate Committee) certain matters before we give an opinion on the financial statements. Our report to the Committee on 24 October 2005 drew to members' attention the agreed amendments required to the draft statements and the material uncertainty that remained pending resolution of the difference between the credit ceiling and the capital financing requirement. The Committee accepted the report and resolved to defer the audit opinion until the matter had been satisfactorily resolved.

Matters arising from the final accounts audit

- 50 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 27 June 2005.

- 51 Two significant issues arose from the audit of the financial statements.
- Credit ceiling: capital financing statement justification - Prior to 2004/05, an amount (the minimum revenue provision - MRP) was required to be set aside from revenue each year to provide for the repayment of loans and credit arrangements taken out to finance capital expenditure. This was calculated as a percentage of the Council's adjusted credit ceiling, an amount calculated initially in 1990 based on outstanding loans and adjusted in subsequent years to reflect MRP and capital receipts. Under the Prudential Code for Capital Finance in Local Authorities, effective from 1 April 2004, MRP is calculated as a percentage of the Council's Capital Finance Requirement (CFR). Although the Credit Ceiling and CFR are calculated on different bases, the difference between them referred to as 'Adjustment A' should be small where an authority has not entered any unusual capital transactions. Where it is not small, authorities should be able to justify the Adjustment A. Lambeth has calculated its Adjustment A at £107 million and has to date been able to justify only £44 million of it. The residual £63 million represents an uncertainty that may point to errors with a material impact on the financial statements.
 - Deferred charges and external borrowing - Premiums and discount on the early redemption of loans, as opposed to a debt restructuring or refinancing exercise, should be charged directly to the consolidated revenue account (CRA) in the year. The Council incorrectly charged £1.656 million of premiums to capital, instead of the CRA as a result of which the housing revenue account surplus had to be reduced by £1.244 million and general fund surplus by £0.412 million. Net premiums amortised to the CRA were understated by a further £11.405 million. This is represented by £6.96 million premium on early repayment of debt (net of HRA depreciation) incorrectly charged to the Asset Management Revenue Account and a further premium of £4.445 million incorrectly capitalised as a deferred charge. The impact was to reduce the general fund surplus by a further £11.405 million.
- 52 Whilst the latter issue was able to be quantified and correcting adjustments made, the uncertainty as to the cause of the adjustment A difference has delayed the issuing of my opinion on the 2004/05 financial statements. We are working closely with officers to resolve this uncertainty.

Financial standing

As a consequence of the uncertainty arising from the audit of the 2004/05 financial statements, the Council's current financial position cannot be fully assessed. The planned strengthening of revenue balances has not been realised over the past year. The underlying causes of capital underspending and profiling issues require the attention of Members. The Pensions Fund deficit is being addressed over a period of years and will necessitate the continuing commitment of the Council if it is to be successful.

General fund spending and balances

- 53 The Council's draft statement of accounts for 2004/05 shows a surplus of £10.5 million for the general fund in the year. Audit adjustments agreed to date have reduced this to £1.8 million, giving a carried forward balance at the end of March 2005 of £15 million. It had been planned to grow the general fund balance to meet any future unexpected expense and the Council's section 151 officer's recommendation. It is disappointing that due to the accounting errors this has not been the case. Earmarked reserves have remained at approximately £32 million and schools reserves increased from £8 million to £9.8 million.
- 54 Forecasts for the current year's general fund show a likely estimated position of a £2.8 million overspend, with most pressure on the Adults and Community Services and Parking budgets. Savings measures are being closely monitored and officers are confident that these will deliver a break even position at the year-end. The Council will need to be vigilant in delivering the 2005/06 budget and in setting an achievable 2006/07 budget in the light of the broader challenging financial context.

Housing Revenue Account

- 55 The Housing Revenue Account (HRA) returned a small surplus (£276,000) over 2004/05 and the year-end balance remained at £9 million. The forecast for 2005/06 is currently an overspend of £2.4 million, which it is recognised needs to be reduced in order to protect a prudent level of reserve to meet future unexpected variances.

Capital programme

- 56 The Council does not reprofile its original capital budget during the year. Consequently, budgeted capital programme expenditure in 2004/05 (£197 million) was underspent by £39 million as a result of delays to many education, environment and community renewal projects. The underspend was carried forward to increase the 2005/06 programme. Current forecasts show this is also likely to be underspent at the year-end by approximately £20 million, again due to project slippage, mainly in children and young people's services, offset by a £13 million shortfall in capital receipts. If the Council is to deliver its ambitious programme of major investment projects effectively, efficiently and economically, it will need to improve the planning of its capital income and expenditure.

Income collection and arrears

- 57 Collection of the major sources of income continues to improve across the Council, but still falls short of target performance. Council tax and business rates collection in the current year are around 0.5 per cent below target, although ahead of last year, and it is expected that business rates collection will meet its target by the year-end. There remains scope to further improve rent and sundry income collection.

Pensions Fund deficit

- 58 The Council's actuaries valued the Pensions Fund's assets and liabilities as at March 2004. It showed that the net assets of £483 million were sufficient to cover 71 per cent of the Fund's liabilities. In order to move towards full funding of liabilities over a period of 20 years, the employers' contribution rate was increased and an additional annual £12 million contribution made. As a consequence, the Fund's net assets grew by £50 million during 2004/05.

Systems of internal financial control

We have assessed the Council's systems of internal financial control as adequate, meeting minimum requirements.

- 59 As part of our work to assess the Council's governance arrangements, we reviewed the Internal Audit work programme for 2004/05 and concluded that it provided adequate coverage of most areas of the Council. In our audit plan, we stated that we aimed to place reliance on the work of Internal Audit to support our audit opinion. We reviewed Internal Audit work on the key financial systems in 2004/05 and concluded we were able to place reliance on it, although the slippage in delivering it meant this was not as efficient as it could be. We will be reviewing the effectiveness of the internal audit arrangements in detail in early 2006.

Standards of financial conduct and the prevention and detection of fraud and corruption

Excepting the incidence of a major fraud in a housing improvement contract in the year, the Council had generally adequate arrangements in place to promote probity and propriety in the conduct of its business, although it still has some way to go in embedding an anti-fraud and corruption culture within the organisation.

- 60 In July 2005, officers identified a fraud perpetrated by a member of staff on a gas central heating project which he was supervising. Investigation by the Council's forensic audit supplier revealed an estimated loss of £2.9 million. Legal action to recover this amount is in hand, and significant sums have been traced to date, but it is too early to assess how successful this will be.
- 61 A senior officer group has been set up to manage the Council's response to the investigation report and it reported to the Executive in January 2006. The group's report identified action it should take to address the four key issues:
- recruitment;
 - commissioning;
 - payment authorisation and procedures; and
 - management oversight and supervision.

- 62 In addition, to these actions I have recommended to officers that further investigation is undertaken to assess the risk that other frauds may have taken place as a result of the failure to comply with internal controls.
- 63 We are continuing to monitor the implementation of the Council's response the fraud investigation's findings.

Legality of transactions

- 64 We reviewed Lambeth's overall control environment for dealing with laws and regulations and dealt with several enquires from the public during the year. Two particular issues were identified that could potentially undermine the framework established by the Council for ensuring the legality of its significant financial transactions.
- 65 In last year's Audit and Inspection Letter, I noted that current procedures do not automatically ensure that the Council can demonstrate it has met the statutory requirement to obtain best consideration for property disposed of under chief officers' delegated authority by means other than competitive arrangements. The former Executive Director of Finance commissioned an internal audit review of procedures to comply with this legislation; however, this has yet to be completed and reported.
- 66 The early retirements of two chief officers during 2005 were considered during the audit. Both included enhancement of benefits met by the Council and its pension fund. The Council has a discretionary policy for early retirement that allows enhanced service to a maximum of six and two third years. In both cases the maximum enhancement was given. The Head of Legal Services and the (then) Interim Executive Director of Finance acknowledged that this policy needs to be reviewed and revised. In one case, however, no documents were produced to evidence whether discretion had been properly and impartially determined by the Director to whom it had been delegated.
- 67 In the light of these findings, the Council should consider whether the degree of control and scrutiny being exercised over decisions made by chief officers under delegation need to be strengthened.

Other work

Grant claims

- 68 In accordance with strategic regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 69 The Council's arrangements for managing and quality assuring grant claims submitted for audit have improved in recent years. Timeliness of claims preparation has improved significantly this year, with 87 per cent of claims received to date on time compared to 40 per cent in 2003/04. Quality has also improved with only 23 per cent of the 2004/05 claims certified to date qualified (30 per cent 2003/04). This is an important improvement which reduces the risk to the Council of monies being withheld or clawed back by Government departments. However, the Council still needs to improve on the quality of the submitted claims to reduce the number of claims that result in an amendment and or qualification.

National Fraud Initiative

- 70 The Council took part in the Audit Commission's National Fraud Initiative (NFI) 2004/05. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector.
- 71 The Audit Commission repeated the exercise this year and the matches were made available to local authorities in February 2005 to investigate. The matches included data collected from payroll, pensions, housing benefits, student loan and housing rents records together with some new records which include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers.
- 72 The Council has made some progress over the course of the year in investigating the data matches from the NFI results and initial results have identified some fraud on benefit matches and tenancy fraud, but a significant number of high-risk matches have yet to be investigated. This is of concern and we will follow-up progress on the matches and investigations as part of our 2005/06 opinion work.

Future audit work

- 73 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 74 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

- 75 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 76 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Chief Executive, Executive Director of Finance and executive members in April 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 77** This letter has been discussed and agreed with the Chief Executive, Executive Director of Finance and Executive Members. A copy of the letter will be presented at the Corporate Committee on 30 January 2006 and the Executive on 13 February 2006.
- 78** The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

- 79** 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
District Auditor and Relationship Manager
20 January 2006

Appendix 1 – Background to this letter

The purpose of this letter

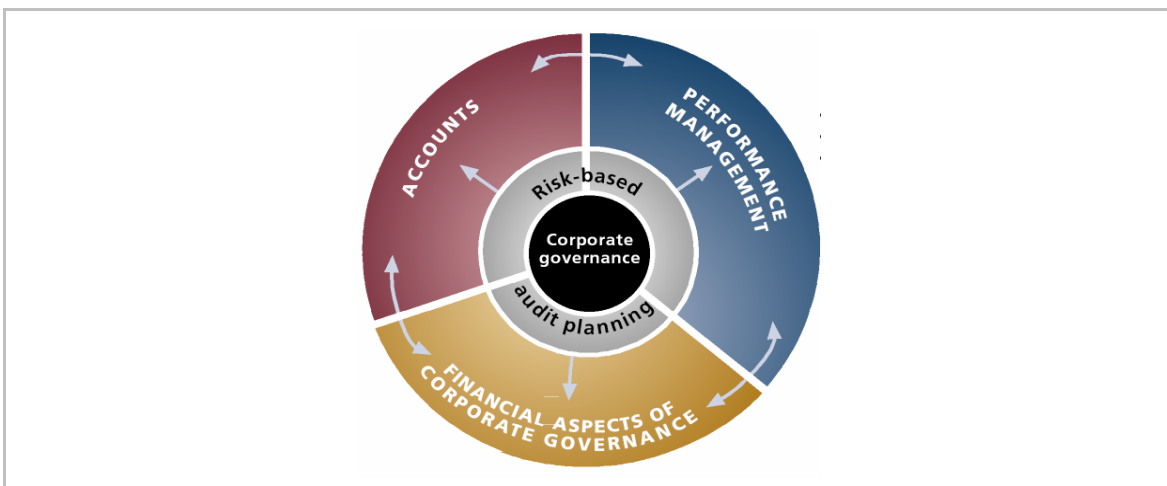
- 80 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 81 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 82 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 83 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 84 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 85 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 2 Code of Audit Practice

Code of Practice responsibilities



- 86** Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 3

Report title	Date issued
Audit and Inspection Plan 2005/06	March 2005
Financial Audit Memorandum	December 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Report on 'Your Business at Risk'	November 2005
Review of Customer Service Centre	May 2005
Review of Diversity Management - Phase 1	February 2005
Review of Partnership Working	December 2005
Review of Integration of Children's Services	November 2005
Audit view - Education Joint Service Centre PFI	June 2005
Audit view - Myatts Field PFI	June 2005
Audit view - Street Lighting PFI	August 2005
Use of Resources Assessment	October 2005
Direction of Travel Assessment	November 2005
Best Value Performance Plan - Opinion	December 2005
Annual Audit and Inspection Letter	January 2006

Appendix 3 – Audit fee

Table 4 Audit fee update

Audit area	Plan 2004/05 £000s	Actual 2004/05 £000s
Accounts	172	181*
Financial aspects of corporate governance	123	123
Performance	281	272
Total Code of Audit Practice fee	576	576
Additional voluntary work (under section 35)		
Total	576	576

*The final fee is dependent on the additional audit work required to resolve the outstanding 2004/05 accounts issues.

Inspection fee update

- 87 The full year inspection fee is £134,000. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.