

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

London Borough of Lambeth

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.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

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.

### **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.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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## Key messages

- 1 The Audit Commission's overall judgement is that the Council is improving strongly and we have classified the Council as three stars (out of four) in its current level of performance under the Comprehensive Performance Assessment (CPA) Framework.
- 2 The Council's environmental services and children's services have improved in line with the Council priorities. Culture services have also improved and the Council has strengthened its overall arrangements for the use of resources.
- 3 The Council's financial health position is generally sound with robust plans for strengthening it. However, a deficit of £2m was incurred on the Housing Revenue Account (HRA) as at 31 March 2007. Recovery plans which aimed to turn this into a surplus of £3.2m by the end of March 2008 are currently expected to fall short by £2.7m but will still deliver a small surplus of £0.6m. This is still a significant improvement compared to 2006/07.
- 4 Housing continues to be a challenge with the move towards achieving the government's decent homes standards by 2010. The setting up of the Arms Length Management Organisation (ALMO) has been deferred reflecting the delay by the Department for Communities and Local Government in confirming funding. The Council is establishing appropriate arrangements for the management of the ALMO and is taking steps to manage the risks associated with this development and the recruitment to key posts.
- 5 We issued an unqualified opinion on the 2005/06 financial statements and an unqualified conclusion on the Council's arrangements for securing value for money on the 28 September 2007.
- 6 The audit opinion on the 2006/07 financial statements has been deferred at the request of the Council while issues associated with the Council's capital accounts are addressed. Many of these issues are now resolved but require material amendments to the balance sheet. On receipt of explanations for the areas where agreement has not been reached, I will consider the final wording of my audit opinion on the financial statements and issue that together with my value for money conclusion which I expect will be unqualified.

## Action needed by the Council

- 7 The key actions needed by the Council to address issues arising from the audit are to:
- ensure that that the progress made in improvements to the Council's use of resources become embedded;
  - strengthen the arrangements for the preparation of the financial statements, in particular the capital accounts;
  - continue to take steps to bring the HRA back into balance;
  - maintain the ongoing drive to deliver decent homes standard by 2010 while also establishing effective arrangements for the proposed ALMO;
  - begin to explore the people, systems and process changes likely to be needed to ensure that the requirements of the International Financial Reporting Standards (IFRS), which become effective from 1 April 2010, are met; and
  - implement agreed recommendations arising from our audit and inspection reports.

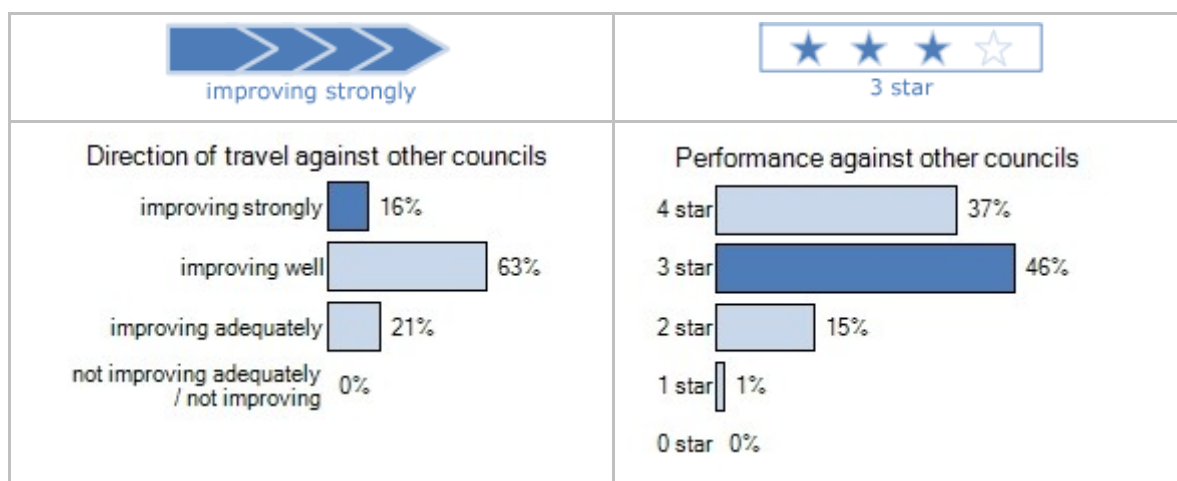
## Purpose, responsibilities and scope

- 8 This letter provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 9 We have addressed this letter to members 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.
- 10 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and the Council is planning to publish it on its own website.
- 11 As your appointed auditor I am 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, I review and report on:
  - the Council's accounts;
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 12 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 13 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

## How is Lambeth Council performing?

- 14 The Audit Commission's overall judgement is that Lambeth Council is improving strongly and we have classified Lambeth Council as three 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.

**Figure 1**



*Councils with a CPA star rating under review or with a direction of travel judgement that is subject to review are excluded from this analysis*

*Source: Audit Commission*

- 15 The detailed assessment for Lambeth Council is as follows.

### Our overall assessment - the CPA scorecard

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving strongly
Overall	3 star
Corporate assessment/capacity to improve	2 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	3 out of 4
Housing	2 out of 4
Environment	2 out of 4
Culture	2 out of 4
Benefits	3 out of 4

(Note: \* these aspects have a greater influence on the overall CPA score)  
(1 = lowest, 4 = highest)

- 16 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. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received assessments from Ofsted, the Commission for Social Care Inspectorate and the Benefit Fraud Inspectorate which are reflected in Table 1 above.

### The improvement since last year - our Direction of Travel report

- 17 Lambeth Council is improving strongly. On the basis of a range of performance indicators, Lambeth is among the ten most rapidly improving councils nationally. In particular, environmental services and children's services have improved, in line with the Council priorities.
- 18 The Council has exceeded its targets for reducing crime; a high priority for local residents. It has contributed to wider community outcomes, for example by discouraging gang membership through the award-winning X-it project. Disadvantaged residents have benefited from significant improvements to the benefits service.

- 19 Value for money is good. The Council has put in place clear plans to secure further improvement in services such as libraries and planning. Its recent track record shows that the majority of targets are met, with particular success in areas of focus such as housing benefits. Systems for monitoring performance are rigorous and strongly led by senior managers and members. There is enough financial capacity and staff have the right skills to deliver the Council's plans. There are no significant weaknesses which would prevent improvement levels being sustained.

## Service inspections

### Community safety inspection

- 20 During 2007 we undertook an inspection of the community safety services provided by the Council and its partners. The inspection looked at the way the Council and partners were meeting the needs of the local community and delivering against local and Government targets contained within the Lambeth Community Safety Strategy 2005-2008 and Public Service Agreement (PSA) targets.
- 21 Overall our inspection found that against a very challenging background, the community safety services provided by the Council and its partners are 'good', meriting a two star rating, and have 'promising prospects' for improvement. There has been a significant and sustained reduction in crime and substantial improvement to the Youth Offending Service. Although it remains a key concern, fear of crime has also reduced. However, the drugs market is still in place and first-time entrants to the criminal justice system are still increasing. The Council and partners need to continue their efforts to tackle the drugs market and further reduce the fear of crime.'
- 22 To help the service improve, we have recommended that the Council should further develop links between community groups to enhance public engagement and awareness of community safety issues and also develop further initiatives to reduce the fear of crime.

## The audit of the accounts and value for money

- 23 As your appointed auditor, I have reported separately to those charged with governance (TCWG), in the Council's case the Corporate Committee, on the issues arising from our 2005/06 and 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts for 2005/06 and a conclusion on your value for money arrangements to say that these arrangements are adequate on 28 September 2007; and
  - my unqualified audit report dated 13 December 2007 on the 2007/08 Best Value Performance Plan confirming that the Plan has been audited and there were no recommendations that we needed to make.

### Audit opinions

#### 2005/06 audit opinion and value for money conclusion

- 24 We reported in last year's letter that we had not yet issued an opinion on the Council's 2005/06 financial statements. This had been delayed, at the request of your Executive Director of Finance and Resources, pending the final resolution by the Council of a capital financing issue (commonly referred to as Adjustment A) that had arisen as a result of implementing the 'Prudential Code for capital finance in Local Authorities' from 1 April 2004, as well as, uncertainties over the appropriateness of the capitalisation of some £7.4m of HRA expenditure. To resolve these issues, the Council agreed to correct its accounts by applying a provision of £23.5m to its capital accounts and £2.5m of HRA capitalised expenditure was written back to the HRA. Following agreement of these amendments as well as others identified during the audit, I reported the updated position to the Executive Director of Finance and Resources and the Corporate Committee in September 2007 and issued an unqualified audit opinion on the Council's financial statements and Pension Fund accounts for the year ended 31 March 2006 on the 28 September 2007. I understand that proposed government legislation, if enacted, will reverse the impact of the Adjustment A amendments on the Council's accounts.
- 25 I also issued an unqualified conclusion on the adequacy of the Council's arrangements in 2005/06 for securing value for money on 28 September 2007.

## **2006/07 audit opinion and value for money conclusion**

- 26** I reported to the Corporate Committee in September 2007 that your Executive Director of Finance and Resources had asked me to defer the issue of my opinion on the Council's financial statements for 2006/07 pending resolution of issues pertaining to the quality of evidence in support of the Council's capital accounts. I had agreed to his request and since then considerable progress has been made in resolving these outstanding issues. I have recently issued an updated report to your Executive Director of Finance and Resources which sets out in detail the areas where agreement has been reached as well as others where this has not been possible to date.
- 27** I have asked for a written explanation as to why the Council is not prepared to make the amendments which I believe are necessary to correctly reflect the Council's financial position. On receipt of these explanations, I will decide whether I can or not issue an unqualified audit opinion on the Council's financial statements for 2006/07.
- 28** The audit has highlighted significant weaknesses in the Council's arrangements for the timely and accurate maintenance and updating of the fixed asset register as well as, the need for improved scrutiny of the financial statements and supporting records before they are presented for audit. We welcome the steps being taken by your Executive Director of Finance and Resources to address these matters, including the strengthening of the team responsible for the fixed assets accounting.
- 29** I expect to issue an unqualified conclusion on the adequacy of the Council's arrangements in 2006/07 for securing value for money from its use of resources.

## **International Financial Reporting Standards**

- 30** CIPFA has recently announced that local authorities will be required to prepare their accounts in line with International Financial Reporting Standards (IFRS) from 1 April 2010. This will require the Council to undertake an impact analysis of IFRS and detailed work to align the accounts and the disclosures accompanying them with the requirements of IFRS. We believe that this development will have a significant impact on the Council's staff, systems and processes and merits attention now.

## Use of Resources

- 31 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 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).
- 32 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 2**

<b>Element</b>	<b>Assessment</b>
Financial reporting	2 out of 4
Financial management	3 out of 4*
Financial standing	2 out of 4
Internal control	3 out of 4*
Value for money	3 out of 4*
<b>Overall assessment of the Audit Commission</b>	<b>3 out of 4</b>

(Note: 1 = lowest, 4 = highest) \*These scores have increased from 2 to 3

- 33 The Council's performance demonstrates that overall it is performing well. We found that the Council's arrangements for financial management, internal control and value for money had improved during the year. We reported notable practice in the Council's consultation arrangements around the annual report and budget setting, and within its arrangements for strengthening risk management in schools. On the value for money theme, we found that the Council had achieved significant improvements through a rigorous reappraisal of costs and performance and a focussed programme of action in high cost or underperforming areas, for example, libraries. In addition, the Council continues to secure improvements in areas which are important to residents. For example, the Council's crime statistics for 2006/07 show the biggest fall in recorded crime in South London. Robust systems are also now in place to deliver and sustain improvement.

- 34** Key areas for the Council to focus on are strengthening the preparation of the financial statements and supporting working papers and updating and maintaining the corporate fixed asset register. In addition, the HRA had a deficit of £2m at 31 March 2007. Recovery plans which aimed to turn this into a surplus of £3.2m by the end of March 2008 are currently expected to fall short by £2.7m but will still deliver a small surplus of £0.6m. Delivering a balanced HRA budget and bringing the HRA back into balance remain key priorities for the Council. We are aware that steps are being taken to address these matters.

## **The key issues arising from the audit**

### **Data quality**

- 35** The Council's overall management arrangements for ensuring data quality are sound. The Council maintains a strong corporate commitment to data quality and responsibility is clearly defined at all levels. Our review and spot checks of eight performance indicators identified one that needed to be amended and our opinion was reserved in respect of two performance indicators. Steps have been taken by the Council to ensure that future PIs will be based upon accurate information.

### **Human resources**

- 36** Our review of the Council's Human Resources (HR) function found that it is improving. Good progress has been made on many aspects of its work, although officers readily acknowledge that more needs to be done to reach the high standards to which the service aspires. In particular, the service is now clear about what it wants to achieve, what it has to do to get there, and that it must become more responsive to the needs of its customers. This gives HR a good basis for further improvement.
- 37** The internal customers of HR are positive about recent changes to the service and were particularly enthusiastic about the Business Partner model, in which an HR officer is linked to a directorate to assess and meet local needs. Although new, this approach is starting to make an impact and managers feel better supported. Similarly, leadership programmes for the top 200 managers were highly regarded. Participants reported that involvement had enhanced their skills.

- 38 Although HR has made some good progress, HR managers know that there are areas where further work is needed. A great deal of activity is underway but some plans have yet to be implemented. The key areas are:
- developing new electronic payroll and recruitment modules for the HR information system (Oracle People);
  - ensuring there is sufficient capacity to implement corporate objectives such as single status;
  - completing work on access to detailed HR management information for directorates;
  - extending leadership training to middle managers;
  - publishing new policies and guidance about Bichard (safeguarding children) and delivering training; and
  - ensuring that all groups of staff with direct contact with children are vetted, not just direct employees of the Council.
- 39 Officers have accepted our recommendations and are implementing the agreed action plan.

### **Risk management**

- 40 We found that the Council has developed good risk management arrangements. These include a clear and comprehensive risk management strategy, a supportive network of risk management champions and the work to develop a raft of training packages to provide the means to enable officers and councillors to meet their risk management obligations. This is guided by excellent councillor leadership and supported by considerable officer energy, drive and leg-work to implement risk management in a meaningful and proportionate fashion.
- 41 The Council has set challenging timescales to deliver all that it expects to achieve from risk management but is on course to achieve these targets. The focus on areas in need of further improvement, namely the on-going maintenance of risk registers, project working and partnerships is a particular strength. The automation of the means to chase outstanding information held on risk registers and internal audit's enhanced systematic review of registers as part of their work is already delivering results. The focus and energy on embedding risk management principles within these areas should continue to deliver improvements. The service is aware of what still needs to be done and has established a controlled and scheduled approach to address these issues. The Council is now well placed to continue to derive more positive benefits, which the robust application of risk management principles can bring to its decision making.

### **Housing Arms Length Management Organisation (ALMO)**

- 42 We reviewed the management arrangements for establishing the housing ALMO and found the overall arrangements to be adequate. An ALMO project board has overseen the development of the ALMO and this is supported by sound project management processes.

- 43 Initial concerns about the process for the permanent appointments of the ALMO board chair and the ALMO chief executive and director of resources have been mediated by the proposed timetable for recruitment. However, delays in appointment of these key posts may limit the capacity of the ALMO. Capacity also needs to be strengthened to establish effective relationships with consultative bodies representing tenants and leaseholder; to ensure the necessary shift in the performance management culture in some services; and enable the ALMO to engage in the development of longer term housing and regeneration strategies for the borough. It will be important that these key posts are successfully filled as soon as possible to ensure that the Council's proposals remain on track.
- 44 We have also recommended that the engagement of the cabinet to oversee the risks associated with the ALMO, greater clarity of the relationship of the ALMO with the local strategic partnership and a better definition of the ALMO's line of accountability with the scrutiny process would all improve governance arrangements. Officers have accepted our recommendations and are implementing the agreed action plan.

### **Partnership review - premature mortality**

- 45 In April 2007, we undertook a joint overview with the local primary care trust (PCT) to identify the key issues facing the partnership in reducing premature mortality in the borough. We found clear structures in place for agreeing priorities but no shared strategic approach to workforce development. The PCT has taken a lead on collecting core data on health inequalities which it shares routinely with the Council. The partners understand diversity issues well and the diverse needs of the population are taken into account by delivering services in a culturally sensitive way. Because gender has been identified as a major factor in life expectancy in Lambeth, the partners have targeted resources to men's health.
- 46 To strengthen current arrangements we recommended:
- that a consistent approach across the partnership be developed for communicating with the public;
  - the development of a vision for shared workforce planning and setting timescales and targets for implementing the changes; and
  - developing consistent performance management arrangements for the local area agreement and within client groups.
- 47 We are pleased to report that the PCT and the Council are putting arrangements into place to implement our recommendations.

## Implementing the Bichard recommendations

- 48 During the autumn of 2007 we undertook a review of the Council's progress in implementing the action plan agreed in 2006 to help the Council tackle the Bichard agenda. We found that impressive progress is being made in key areas including:
- in February 2007 a project group chaired by the Divisional Director of Social Care was established to oversee the implementation of the main recommendations through four working groups focusing on safer recruitment, information sharing, records management and training;
  - information sharing training has been provided to 210 staff across the partnership and 14 additional sessions were scheduled for delivery by March 2008; and
  - all corporate HR policies are being reviewed. The safer recruitment working group had completed an update of recruitment and selection guidelines and the policy and guidance on the crime records bureau (CRB) vetting. HR is also developing a communication plan for all revised policies and procedures.

## Grant claims

- 49 The Council's performance in submitting claims on a timely basis was in line with their target of 80 per cent being submitted by the specified deadline. The Council performed well at addressing previous years qualification issues although work is required to reduce the number of new issues raised. Nine (out of fifteen audited) claims required amendment and eight claims were issued with qualification letters. The quality of working papers supporting claims were generally of a good quality with a few notable exceptions.
- 50 In respect of the New Deal for Communities - Clapham park project we raised a number of issues that need to be addressed by the Clapham Park Partnership and Council and concluded that the Council needs to strengthen its own monitoring systems and controls to enable it to fully discharge its minimum responsibilities as an accountable body. Governance concerns on this particular claim have also been raised by electors.
- 51 We have prepared a report for officers and made recommendations on how to further improve the claim compilations process in 2007/08 and reduce the number of amendments and qualification letters.

## **National Fraud Initiative**

- 52** In 2006/07 the Council took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud, payroll fraud, right to buy scheme fraud, providing new contact details for former tenants with arrears in excess of £1,000 and, new for 2006/07, the private residential care homes module and council tax single person discounts.
- 53** The Council continues to make good progress in investigating NFI matches and this has resulted in real savings for the organisation including the recovery of Council property. As part of the Council's overall anti fraud strategy, it has appointed KPMG to provide counter fraud services for the authority. Partnership working with other agencies such as Metropolitan Police and Department for Work and Pensions continues to go from strength to strength. Lambeth has a Metropolitan Police Officer seconded to its in-house anti-fraud team and this approach has led to an increase in the number of successful prosecutions.

## Looking ahead

- 54** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 55** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 56** The first results of the Commission's work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

## Closing remarks

- 57 This letter has been discussed and agreed with the Executive Director of Finance and Resources and Chief Executive. A copy of the letter will be presented at the Corporate Committee on 2 April 2008. Copies need to be provided to all Council members.
- 58 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports listed in Table 3.

**Table 3**      **Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	April 2006
Best value performance report	December 2007
Annual Governance Reports	September 2007, March 2008
Opinion on financial statements	April 2008
Value for money conclusion	March 2008
Use of Resources Assessment	November 2007
Direction of Travel Assessment	January 2008
Partnership review - premature mortality	May 2007
Community safety inspection	October 2007
Risk management review	October 2007
ALMO preparations	November 2007
Annual audit and inspection letter	March 2008

- 59 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

## Availability of this letter

- 60 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Kash Pandya**  
**District Auditor and Relationship Manager**

March 2008