

# Annual Audit Letter

## London Borough of Lambeth

Year ending 31 March 2020





## Contents

- 01** Executive summary
- 02** Audit of the financial statements
- 03** Value for money conclusion
- 04** Other reporting responsibilities
- 05** Our fees
- 06** Forward look

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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for London Borough of Lambeth (the Council) for the year ended 31 March 2020. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

| Area of responsibility   | Summary  |
|--|--|
| Audit of the financial statements                                      | <p>Our auditor's report issued on 3 March 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Council's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20</li></ul> |
| Other information published alongside the audited financial statements | <p>Our auditor's report included our opinion that:</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>   |
| Value for money conclusion   | <p>Our auditor's report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.</p>   |
| Reporting to the group auditor   | <p>In line with group audit instructions, issued by the NAO on 4th November, we reported to the group auditor in line with the requirements on the Council's WGA return.</p>   |
| Statutory reporting  | <p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.</p>   |



## 2. AUDIT OF THE FINANCIAL STATEMENTS

|                                     |             |
|-------------------------------------|-------------|
| Opinion on the financial statements | Unqualified |
|-------------------------------------|-------------|

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2020 and of its financial performance for the year then ended. The audit report included emphasis of matter paragraphs:

- As detailed within our response to the significant risk over the valuation of the Council's Property, Plant and Equipment, our auditor's report includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties in the valuations.
- As detailed within our response to the significant risk over the valuation of the Council's IAS19 pension liability, our draft auditor's report includes an emphasis of matter paragraph with respect to the Council's disclosure of material valuation uncertainties in the valuation of associated property investment funds.

Our opinion on the Council's and Group's financial statements was not qualified in respect of these matters.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.



## 2. AUDIT OF THE FINANCIAL STATEMENTS

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Corporate Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:

|                                 |  | Group   | Council |
|---------------------------------|--|---------|---------|
| Financial statement materiality | Our financial statement materiality is based on 1.5% of Gross Revenue Expenditure.   | £17.59m | £17.47m |
| Trivial threshold               | Our trivial threshold is based on 3% of financial statement materiality.             | £528k   | £524k   |
|                                 | We have applied a lower level of materiality to the following areas of the accounts: |         |         |
| Specific materiality            | - Officers remuneration  | £5k     | £5k     |
|                                 | - Exit packages  | £5k     | £5k     |
|                                 | - Related party transactions   | £0      | £0      |



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Corporate Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

| Identified significant risk   | Our response  | Our findings and conclusions  |
|---|---|---|
| <p><b>Management override of controls</b></p> <p>In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>  | <p>We addressed this risk through performing testing in respect of:</p> <ul style="list-style-type: none"> <li>Accounting estimates impacting on amounts included in the financial statements;</li> <li>Consideration of identified significant transactions outside the normal course of business; and</li> <li>Journals recorded in the general ledger and other adjustments made in preparation of the financial statements</li> </ul>                                 | <p>With the exception of our findings on the redress provision there are no significant findings arising from our review of areas of potential management override of controls.</p> |
| <p><b>Revenue recognition</b></p> <p>Based on our initial knowledge and planning discussions we concluded we could rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income. In particular we rebutted the revenue recognition risk for income derived from Council Tax, Grants and NNDR due to the low inherent risk associated with these amounts.</p> <p>We did not rebut the income risk relating to other material income streams within the Council, such as adult social care costs and charges for use of Council facilities, where the level of inherent risk is higher.</p> | <p>We addressed the risk by obtaining a detailed understanding of the Council's processes to recognise revenue in the correct accounting year. We performed the following work:</p> <ul style="list-style-type: none"> <li>detailed testing of transactions within the 2019/20 financial statements;</li> <li>testing around the year-end to provide assurance that there were no material unrecorded items of income and expenditure in the 2019/20 accounts.</li> </ul> | <p>There are no significant findings arising from our review of revenue recognition</p>   |



## 2. AUDIT OF THE FINANCIAL STATEMENTS

| Identified significant risk   | Our response   | Our findings and conclusions   |
|---|--|--|
| <p><b>Property, Plant and Equipment valuations</b></p> <p>Where Council's assets are subject to revaluation, the year end carrying value should reflect the appropriate fair value. The Council has a rolling revaluation model covering a five year cycle, which may result in individual assets not being revalued for several years, which creates a risk that the carrying value of assets not revalued in year is materially different from the year end value.</p> <p>Due to the high degree of estimation uncertainty associated with these valuations, and the impact of the Covid-19 pandemic, we have determined there is a significant risk in this area. The Council's valuer applied a material valuation uncertainty paragraph to the valuations performed.</p> | <p>We addressed this risk by reviewing the approach adopted by the Council to assess the risk, and considered the robustness of that approach.</p> <p>We also assessed the risk of the valuation changing materially in year, in order to determine whether these indicate that fair values have moved materially.</p> <p>In addition, for assets revalued during the year we:</p> <ul style="list-style-type: none"> <li>assessed the valuer's qualifications;</li> <li>assessed the valuer's objectivity and independence;</li> <li>reviewed the methodology used; and</li> <li>performed testing of the associated underlying data and assumptions.</li> </ul>      | <p>Our review identified :</p> <ul style="list-style-type: none"> <li>an error in the assessment for one valuation.</li> <li>the Council had not reflected its valuer's assessment of HRA valuation movement.</li> </ul> <p>Management amended the accounts for these.</p> <p>The Council have included a disclosure of a material valuation uncertainty in the financial statements. We have included an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report.</p> |
| <p><b>Defined benefit pension liability</b></p> <p>The latest triennial valuations of London Borough of Lambeth Pension Fund and the London Pension Fund Authority were completed at 31 March 2019. The valuation provides the basis of the associated net pension liability for the Council as at 31 March 2020.</p> <p>The valuation of the Council's net liability includes use of discount rates, inflation rates, mortality rates etc., Due to the high degree of estimation uncertainty associated with valuations, we determined this to be a significant risk.</p>  | <p>We addressed this risk by reviewing the controls the Council had in place over the information sent to the Scheme Actuaries by the fund administrators. We also:</p> <ul style="list-style-type: none"> <li>assessed the skill, competence and experience of the actuary for each Fund;</li> <li>challenged the reasonableness of the assumptions used by the actuaries;</li> <li>carried out a range of substantive procedures on relevant information.</li> </ul> <p>Due to the potential valuation uncertainty arising from the Covid-19 pandemic we requested assurance from Pension Fund auditors on the work performed on unquoted investment valuations.</p> | <p>We have reviewed the confirmation provided by the Pension Fund auditors and any issues within the valuation of Pension Fund assets.</p> <p>The Council have included a disclosure of a material valuation uncertainty in the financial statements. We have included an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report.</p>   |



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

#### Cash & Bank balances

|                                  |   |
|----------------------------------|---|
| <b>Description of deficiency</b> | The bank reconciliation process completed by the Council is complex and, as a result of the changes in responsibilities, together with the previous update to the financial system, a number of the completed reconciliations included a significant number of immaterial reconciling items. Review of these items has confirmed that some have been on the reconciliation for a period of time without review and resolution, although the Council continues to review and resolve others. |
| <b>Potential effects</b>         | The change in responsibilities for the completion of the bank reconciliation process, combined with the significant number of long outstanding reconciling items, increases the risk of manual errors arising in the process and incorrect entries not being appropriately amended.   |
| <b>Recommendation</b>            | We recommend the Council complete a full review of the reconciling items within the bank reconciliations to identify the items and properly clear them. This will ensure there is a clear trail detailing how the bank balance ties back to the Council's ledger that can easily be reviewed and assessed by a senior independent member of the finance team  |
| <b>Management response</b>       | The review and clearance of reconciling items has been prioritized for 2020/21 with a particular focus on longstanding items and many of the outstanding issues that were present in the end of year reconciliations have since been resolved. Bank Reconciliations are reviewed monthly and signed off quarterly by a senior member of the finance team.   |





## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Review on non revalued assets

|                                  |   |
|----------------------------------|---|
| <b>Description of deficiency</b> | Detailed review of the Council's asset revaluation programme has identified that, where assets have not been revalued for a period of time under the 5 year programme, the Council has not considered the potential revaluation movements in the period since its last revaluation. Although our review has confirmed that there is unlikely to have been a material movement on the value of these assets, this assessment should be performed each year by the Council or its valuer. |
| <b>Potential effects</b>         | By not considering the potential valuation movement of those land and building assets not revalued for more than 2 years, the value of land and building assets included within the Council's year-end financial statements may be materially misstated.  |
| <b>Recommendation</b>            | The Council should ensure it considers the valuation of all assets not subject to revaluation review within the last two years and performs a review of the potential movement in value of these assets in order to confirm there has not been a significant movement in the valuations.  |
| <b>Management response</b>       | In addition to our annual valuation cycle, our external valuer provides an annual impairment review at 31 March covering the Council's asset base with a separate report for both the Housing Revenue account and the General Fund. As part of this annual review, we will ask our valuer to particularly consider assets that have not been revalued in the last two years to provide a professional view regarding any material misstatement.   |



### 3. VALUE FOR MONEY CONCLUSION

|                            |                    |
|----------------------------|--------------------|
| Value for money conclusion | <b>Unqualified</b> |
|----------------------------|--------------------|

#### Our audit approach

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, ‘in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.’ To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor’s report stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2020.

| Sub-criteria             | Commentary  | Arrangements in place? |
|--------------------------|---|------------------------|
| Informed decision making | <p>The Borough Plan sets out the four ambitions and 20 associated goals for the Council and its partners over the next two years, with delivery of these being subject to regular review to assess progress with delivery and impact.</p> <p>The Council has well developed arrangements for decision making. The Corporate Committee fulfils the expected functions of an Audit Committee and has continued to meet regularly throughout the year challenging reports as appropriate. Detailed risk management arrangements are in place with progress monitored as well as subject to review and challenged by the Corporate Committee.</p> <p>There is regular reporting to Cabinet of performance and financial information, with a detailed financial plan supporting the setting of a balanced budget , which for 2019/20 included a minor overspend.</p> <p>The Council has had a detailed Treasury Management Strategy with regular reporting. Decisions on treasury management are linked to the overall financial strategy in light of performance in the year.</p> | Yes                    |



### 3. VALUE FOR MONEY CONCLUSION

| Sub-criteria                                  | Commentary  | Arrangements in place? |
|---|---|------------------------|
| Sustainable resource deployment               | <p>The MTFP continues to be subject to regular reporting, with progress against the Council’s savings plans being monitored. The output of monitoring, including improved savings plans, are fed into the MTFP development.</p> <p>Updated MTFPs are presented to Cabinet and include details of funding gaps to ensure to remain within forecast funding. Recent reviews have included the impact of Local Government Spending and the impact of Covid-19 on funding streams. The Council continues to identify savings plans to meet shortfalls in funding.</p> <p>The MTFP has several objectives including prioritising resources in-line with the Council’s Borough Plan, maintaining a balanced budget position, providing a framework to assist with decision making and manage the Council’s finances.</p> <p>The identified funding gap across the life of the MTFP has increased significantly as a result of the pandemic, and the Council has incurred additional costs and generating reduced revenue. The Council has prepared detailed briefing papers on the financial impact of the pandemic which is being used to refresh the MTFS.</p> <p>In view of the net revenue position in 2019/20, the setting of balanced budgets, the Council’s continued approach to identifying further savings in response to the developing funding position, and the overall managed response to the pandemic, we consider the approach to value for money to be appropriate.</p> | Yes                    |
| Working with partners and other third parties | <p>The Council is committed through its better fairer Lambeth programme, to work to improve the lives of people who live and work in the Borough. The Borough Plan has been driven by Lambeth First - a partnership between the Council, the NHS, businesses, community groups and charities across Lambeth. It has four ambitions and 20 goals to focus joint work.</p> <p>In May 2019 the Council received a focused service inspection of Children’s services, and the Council has continued to make progress in addressing issues.</p>  | Yes                    |



### 3. VALUE FOR MONEY CONCLUSION

#### Significant audit risks

The NAO’s guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to significant risks is outlined below.

| Risk  | Work undertaken   | Conclusion   |
|---|---|--|
| <p>The financial forecast reported to Cabinet in February 2020 showed that the Council was forecasting an overspend for 2019/20. There continue to be funding / demand pressures within Adult Social Care and Children's services. Spending pressures are being managed through existing resources, additional grants and reviews of specific policies.</p> <p>The Authority’s Medium Term Financial Plan continues to identify funding gaps to address to be able to remain within forecast funding levels. As a result the Council continues to review and identify savings to meet this requirement.</p> | <p>We will review the controls put in place by the Council to ensure financial resilience, including the ongoing development and implementation of the Medium Term Financial Plan, ensuring that is taking into consideration factors such as potential funding reductions, salary and general inflation, demand pressures, etc.</p> <p>We will specifically review management actions and mitigations to address the forecast overspend and ensure delivery against the agreed budget.</p> | <p>We have no significant issues arising from our work to report. We note that the Council is continuing to respond to the challenges presented by the Covid pandemic.</p> |



## 4. OTHER REPORTING RESPONSIBILITIES

|  |                      |
|--|----------------------|
| Exercise of statutory reporting powers                                 | No matters to report |
| Completion of group audit reporting requirements                       | Consistent           |
| Other information published alongside the audited financial statements | Consistent           |

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions in relation to 2019/20. We are continuing to deal with objections in relation to 2018/19.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data, and to carry out certain tests on the data. We submitted this information to the NAO on 13 December 2021.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



## 5. OUR FEES

### Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Corporate Committee in March 2020.

Having completed our work for the 2019/20 financial year, we can confirm that our final fees are as follows:

| Area of work   | 2019/20 proposed fee | 2019/20 final fee |
|--|----------------------|-------------------|
| Agreed fee for delivery of audit work under the NAO Code of Audit Practice             | £160,038             | £160,038          |
| Additional fee for changes in the scope of work and additional work on specific issues | £43,600              | £43,600           |
| <b>Total</b>   | <b>£203,638</b>      | <b>£203,638</b>   |

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.



## 6. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

### The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

### Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.



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