

Auditor's Annual Report

London Borough of Lambeth
Year ended 31 March 2022

4 December 2023



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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for London Borough of Lambeth ('the Council') for the year ended 31 March 2022. Although this report 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 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 4 December 2023. Our opinion on the financial statements was unqualified.



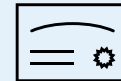
Value for Money arrangements

In our audit report issued we reported that we had identified significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and we had issued an associated recommendation. Section 3 provides our commentary on the Council's arrangements.



Wider reporting responsibilities

In line with prior years, we expect to complete appropriate audit work on the Council's Whole of Government Accounts (WGA) return once this has been completed. At present the NAO is yet to issue guidance on sampled components in relation to the 2021/22 Whole of Government Accounts. Therefore, we are unable to conclude our procedures. We will keep the Council informed of any updates.



Audit certificate

Following the completion of our work we would normally issue our audit certificate which formally closes the audit for the 2021/22 financial year. At this stage we are unable to certify completion of the 2021/22 audit because of the delay to the WGA return.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

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 2022 and of its financial performance for the year then ended. Our audit report, issued on 4 December 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

Qualitative aspects of the Council's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Authority's circumstances. The accounts have been prepared on the correct (continued provision of service) going concern basis.

Draft accounts were provided by the authority on 15th July 2021 and were of a high quality. Supporting working papers were made available prior to the commencement of the audit and were of a high quality. Staff members were timely and extremely thorough in response to evidence requests and audit enquiries.

Significant matters discussed with management

We have discussed the following significant matters with management:

- The impact of Covid-19 on the council and the associated impacts this may have on the provision for expected credit losses and the potential overall impact on the council's financial position.
- Going concern and the basis of management's assessment of its current position. We have reviewed management's initial assessment and considered this against budget forecasts and Cabinet finance papers to support the judgement.

Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties and we have had the full co-operation of management.

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. As part of the audit we also followed up the following deficiencies in internal control noted in the prior period.

Completeness of Property, Plant & Equipment valuations

Description of deficiency

During the course of our review of the councils Property, Plant & Equipment valuations we identified that a number of the Council's assets (value £3.836m) had not been revalued in the preceding 5 years. This is not in line with the Council's policy or the code requirements.

Potential effects

Where assets have not been subject to revaluation the value of assets as recorded in the financial statements, and associated accounting entries related to their continued use, may be misstated. In view of the value of assets that have not been subject to revaluation, we consider that there is unlikely to be a material misstatement in the financial statement.

Recommendation

The Council should ensure that it reviews all Plant, Property and Equipment valuation dates to ensure that all assets are included and have been revalued within the 5 year rolling valuation programme and their values included within the FAR and financial statements.

Management update

The Council has updated its valuations to ensure assets are revalued, any remaining assets will be revalued as part of the 2022/23 financial statements process.

Bank reconciliation

Description of deficiency

Review of the bank reconciliation process performed by the Council has noted that, within individual reconciliations, there are a number of items that have been within the reconciliation for a period of time and still require adjustment within the general ledger.

Potential effects

The continued existence of a large number of effective reconciling items within the reconciliation, increases the complexity of the process and the risk of manual errors arising through the continued inclusion of significant items requiring adjustment.

Recommendation

We recommend that the Council review the individual bank reconciliations and undertake appropriate update procedures to ensure entries have been appropriately resolved and adjusted within the general ledger and bank reconciliation.

Management response

Review of individual reconciliations is continuing, with a number of adjustments having been made to individual reconciliations as appropriate.

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Section 03:

Commentary on VFM arrangements

3. Commentary on VFM arrangements

Overall summary



3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:



Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services



Governance - How the Council ensures that it makes informed decisions and properly manages its risks



Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on page 12.

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3. VFM arrangements – Overall summary

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Council arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

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


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3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	13	No	No	No
 Governance	16	Yes – see risk C on page 17	Yes – see recommendation 1 on page 26	No
 Improving economy, efficiency and effectiveness	21	Yes – see risk C on page 22	Yes – see recommendation 2 on page 26	No

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3. Commentary on VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to financial sustainability in 2021/22

The Council began the 2021/22 financial year as the country moved gradually out of the restrictions arising from the national lockdown, which brought with it the management of a range of changing requirements to effectively respond to the centrally implemented step levels. Central government implemented a series of steps and a detailed timetable as part of the continued national response to Covid-19, many of which impacted on the Council's continuing and pandemic specific services. The Council was at the forefront of efforts to assist local residents, including the most vulnerable, and to support local businesses.

As in 2020/21, some of the Government's initiatives to respond to the Covid-19 pandemic were supported by funding, for which the Council received significant additional funding across both 2020/21 and 2021/22. This included general grants to support its Covid-19 response of £14m (2020/21 £25.2m), specific grants of £11.2m (2020/21 £22.1m) of which the Council had discretion over to determine the use of £2.7m (2020/21 £3m), and compensation for business rate reliefs of £22.1m (2020/21 £25.1m), alongside significant funding provided to support local business in line with the government's national initiatives. This funding allowed the Council to continue to support residents and businesses through the year and provide funding to help mitigate some of the financial pressures caused by the pandemic. The financial sustainability challenges arising from the pandemic response have continued in the short term and, combined with changes in government funding, maintains the pressure on the Council to ensure effective financial sustainability arrangements.

The Council's financial planning and monitoring arrangements

In February 2021 the Council set a balanced budget for the 2021/22 financial year, allowing for increases in central government grant allocations and an increase in Council Tax of 1.99%. Throughout the year the Council has continued to update its budget forecast, enabling budgets to remain up-to-date in the changing environment arising from the ongoing pandemic response. Within

the original approved budget, the Council identified a budget gap of £13.7m to be met by increased income and savings.

The Council's financial planning and budgeting arrangements are well established and include a wide range of activities and consultations. The budget setting process includes engagement with senior Council officers and incorporates discussion about the delivery of statutory services/priorities and the impact on resources. Where additional resources are required these are scrutinised and challenged before they are included in the budget estimates. Workshops with officers and Members are a key part of the budgeting arrangements, and these are detailed and extensive.

The Council provided quarterly reports of its financial position to Cabinet across the year, as well as at year end, which reported its revenue outturn position for 2021/22 as an overall overspend of £7.209m. We have reviewed a sample of the reports presented throughout the year and these were detailed and comprehensive and incorporate monitoring of the revenue budget, the capital programme and a range of other financial measures and other performance information for officers and Members to review and consider overall performance. The Council has a well-established timetable for Cabinet reporting which includes reporting to directorate, divisional and strategic management teams. Reporting has developed over the course of the year to include links with the Borough Plan Pillar to allow for increased consideration of performance.

The Council's arrangements for identifying, managing and monitoring funding gaps and savings

The Council produces a Medium-Term Financial Strategy (MTFS) each year alongside its annual budget. This sets out the resources available to deliver the Council's overall commitment to provide services that meet the needs of people locally over the planned four year period and is updated and extended as part of each years budget setting process.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

A key part of the MTFS is to highlight the budget issues that need to be addressed by the Council in each of the years covered. It includes assumptions to allow forecasting of the level of available resources from all sources together with the budget pressures relating to both capital and revenue spending. The strategy reflects changes in assumptions and funding that are understood to explicitly identify its budget reduction requirements for the remaining years of the MTFS the budget relates to, this being through detailed consideration of budgetary pressures, funding estimates, and impact of national and local initiatives. This is compared against the identified and agreed savings to identify the shortfall in savings and the budget gap over the year and strategy, from which further savings plans are developed.

The Council’s detailed budget setting process is a detailed and comprehensive process including consultation and discussion with officers and Members around the assumptions and principles on which the detailed budget is based. A range of officer meetings and discussion take place to support the budget and MTFS development, to review proposals for savings and budget reductions, with each proposal supported by evidenced assessments of deliverability and potential savings. Proposals are subject to consultation with staff, officers and Members and are presented to meetings attended by Cabinet & Deputy Cabinet Members and senior officers, Overview & Scrutiny, and Cabinet before submission to, and approval at, Full Council as part of the formal budget and council tax setting process.

We have reviewed a range of the budget preparation documents and meetings held as part of the budget setting process. This confirmed that the documents were comprehensive and detailed and the process for development had been completed on a timely basis and delivered the intended outcomes to assist with the budget preparation.

The MTFS for the 2021/22 to 2025/26 period set out that the shortfall identified for 2021/22 was £11.8m which, along with shortfalls over the remainder of the plan, had been met from identified savings. A revised MTFS for the 2023/24 to 2026/27 has identified that a further funding gap of £6.4m for 2026/27. The prepared budget reports for each year are clear on the delivery of savings and consistently articulate the challenge the Council faces.

Council’s arrangements and approach to 2021/22 financial planning

The Council’s arrangements for the 2021/22 and 2022/23 budget setting process have largely followed the arrangements in place for 2020/21, and the budget for both years were approved by Cabinet and Council prior to the start of financial year. For 2022/23 the Council has set a balanced budget with a total net budget for Council services of £350.21m with an increase in Council Tax of 1.99% (together with the allowed Adult Care precept). The budget included £14m of recurrent budget savings / income increases and as a result was fully balanced.

We have reviewed the supporting evidence relating to the preparation of both the 2021/22 and 2022/23 budget and these demonstrate that the arrangements are consistent with the prior periods, detailed and robust and properly applied. We do note, from review of the Council’s 2021/22 financial statements, there has been further planned use of the available General Fund reserves, such that at the end of the year the Council no longer had an unallocated General Fund balance, with amounts being held as earmarked balances.

Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to financial sustainability.

3. Commentary on VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks



3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1 Governance arrangements in relation to Homes for Lambeth</p> <p>In 2017 the Council established Homes for Lambeth (HfL) as a wholly owned subsidiary company to help deliver it's affordable housing strategy. In April 2020, the Council agreed the first 3 year business plan for HfL, together with a 25 year pipeline capable of providing c. 5,000 homes. Over the course of the first two years of that business plan the Council became aware that it needed to see improvements in the governance and management of HfL and that housing delivery needed to be enhanced.</p> <p>In July '22 the Council commissioned an independent review of the Council's management of, and working relationship with, it's wholly owned subsidiary company. The review was commissioned because the company's delivery of new houses was well behind plan, was receiving criticism from some residents and Members had concerns over the governance of the company and the effectiveness of the Council's scrutiny.</p>	<p>Work undertaken</p> <p>In summary the report's findings identified that HfL had underperformed. The rationale for the findings relate to how HfL operated, ambiguity in the original brief it was responding to, unclear governance arrangements and poor working relationships with the Council. These meant that the Council was unable to deliver its affordable housing strategy and in particular the number of new housing units that meet the affordable housing definition.</p> <p>We have reviewed the report and the Council's response in respect of our value for money (VFM) responsibilities.</p> <p>The Council was aware of performance issues at HfL, some of which were related to the impact of the Covid-19 pandemic. During 2020, the Council's Overview and Scrutiny Committee commissioned a review of the structure and governance arrangements of HfL, the Council's governance arrangements for engaging with HfL and the working relationship between the parties. A report was presented to the December 2020 meeting of the Overview and Scrutiny Committee. Since then the Council has taken actions seeking to improve the performance of HfL including revising the approval process for small sites and reviewing the gateway process for estate regeneration. However, the performance of HfL and its direct delivery route for affordable housing has not improved in the 2021/22 financial year.</p> <p>Results of our work</p> <p>We consider that there is sufficient evidence of a significant weakness in the Council's VFM arrangements for the financial year ending 31 March 2022 for managing the performance of Homes for Lambeth, specifically how the Council ensured it made properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.</p>

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

The Council’s risk management and monitoring arrangements

Throughout the organisation there is a well established risk management system and an embedded governance structure. The Council reviews and amends its Risk Management Strategy each year, with a forward looking focus (a review of the 20-23 strategy and policy was completed in October 2021), and is well integrated within the Council’s service planning arrangements. The risk management arrangements detail the importance of maintaining strong arrangements and includes directorate, divisional and project risk registers, all of which are informed by detailed assessments of the key risks impacting on each area.

These detailed registers inform the level above and ultimately feed into the Council’s corporate risk register which sets out the key strategic and corporate risks. The risk registers apply a risk score both before and after the identification and application of any mitigation measures and enable the Council to manage the risks actively and take action where necessary. We have reviewed the risk management strategy and examples of directorate and divisional risk registers, as well as the corporate risk register. Our review confirms the strategy is clear and detailed, and the registers appear comprehensive, containing sufficient and appropriate detail to inform Council officers and Members.

The Council reports its risk registers through its governance framework, with registers presented and discussed across member and officer meetings, and feeds into the regular risk update reports to Cabinet and the Corporate Committee. Through our attendance at the Corporate Committee meetings we have confirmed that the Committee, by its challenge on specific issues, understands its role in the risk management framework and provides robust the overall risk management strategy, associated registers, corresponding risks and mitigating actions.

The Council’s governance arrangements include how it exercises oversight and management of the service delivery of its subsidiary: Homes for Lambeth (HfL). In July 2022 the Council’s new administration commissioned an independent review of the Council’s management of, and working relationship with HfL.

The report, entitled ‘Kerslake review of affordable housing in Lambeth’, was published at the end of November 2022 and is commonly referred to as the ‘Kerslake Report’.

In summary the report’s findings identified that HfL had underperformed. The rationale for the findings relate to how HfL operated, ambiguity in the original brief it was responding to, unclear governance arrangements and poor working relationships with the Council. These meant that the Council was unable to deliver its affordable housing strategy and in particular the number of new housing units that meet the affordable housing definition.

On 5 December 2022 Cabinet accepted all the recommendations made in the report. We have reviewed the report and the Council’s response in respect of our value for money (VFM) responsibilities and reported separately our view that the matters reported represent a significant weakness in the Council’s governance arrangements. See page 17 for further details.

The Council maintains an internal audit function, with the service largely provided by an external professional services firm, with an external Head of Internal Audit. It provides assurance over the effective operation of internal controls. The services is managed overall by the Strategic Director for Finance and Investment, who also oversees the arrangements to prevent and detect fraud (which is managed internally). The annual Internal Audit plan is ordinarily agreed with management at the start of the financial year and is reviewed by the Corporate Committee prior to final approval.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The audit plan is based on an assessment of risks identified by the Council and is determined to ensure there is assurance on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. We have reviewed the Internal Audit plans covering both 2021/22 and 2022/23 and confirmed they are consistent with the risk based approach, which has also responded to delays in completion arising across 2020/21. The Council has comprehensive anti-fraud and corruption policies which were updated and approved in December 2021.

Internal Audit progress reports are presented to each Corporate Committee meeting, including follow up reporting on recommendations from previous Internal Audit reports and overall assessment of progress in delivering recommendations across all reports. Throughout the year we have attended all Corporate Committee meetings, and from our attendance at meetings we are satisfied this allows the Corporate Committee Members to engage with the reports and challenge the papers and reports which they receive from management, internal audit and external audit.

At the end of each financial year the external Head of Internal Audit provides an opinion based on the work completed during the year. For 2021/22 the Head of Internal Audit concluded that an adequate level of assurance could be given that the Council's overall framework of governance, risk management and control remains appropriate and has been complied with.

Council arrangements for budget setting and budgetary control

The 2021/22 Annual Revenue and Capital Budget was approved in February 2021, setting out the estimates of the financial challenge for the financial year 2021/22, in line with the reviewed and updated MTFs. Quarterly financial monitoring reports have been prepared throughout 2021/22 which highlighted key issues, including any potential impact on budgets in current year and impact across

the period of the MTFs. Financial monitoring reports are presented to senior managers, Members and then to Cabinet for approval.

Throughout the period there was continued discussion between officers and Members to consider the current financial position and any impact on the budget, alongside consideration of the continuing impact on service delivery of responses to the pandemic on the council. Members were continually engaged in discussions about the financial implications of the pandemic response on the Council and work to maintain the financial plans developed through the MTFs. This engagement ensured the Council was able to maintain its service delivery as the central government requirements of the response developed and pressures changed.

The Council has well established budget monitoring arrangements across departments and members, these being developed across the year to include greater performance details linked with corporate aims. Internal finance teams are aligned with the Council's management portfolio structure and the team work closely with cost centre managers to review, discuss and consider the financial pressures impacting on specific service areas, using performance details as appropriate to support the analysis.

The Council maintains a detailed internal budget monitoring timetable for finance teams to ensure that reports and details are completed on a timely basis. Overall financial monitoring reports are prepared for the whole Council position in respect of both its Capital and Revenue budgets and these reports are presented to Cabinet quarterly across the year. The content and format of the report is regularly reviewed and updated to ensure relevant information, including performance against key corporate aims and associated performance indicators, together with specific points relating to the pandemic.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Governance reporting criteria - continued

Council decision making arrangements and control framework

The Council's decision-making arrangements are well established and detailed within the Council's Constitution, with decisions being either made by Members (Cabinet, Council, or other decision-making committees) or delegated to Cabinet portfolio leads and/or officers as appropriate. All Cabinet and Key Decision reports include Statutory Officer Comments, together with assessments of Finance, Legal issues, Risk Management, Equalities and Organisational Implications. The Council has a range of overview and scrutiny committees that challenge and scrutinise Council decisions.

Throughout the pandemic and its subsequent response period, the Council adapted its decision-making arrangements to respond to the challenges to ensure decisions were made at an appropriate level and included the Council and its relevant partners. As the restrictions presented by the pandemic have eased so these have been further revised accordingly. This has enabled the Council to proactively manage its emerging risks and to take properly informed decisions in an appropriate timescale. The council continued to monitor the actions set out in 'New Beginnings: Building Lambeth's Recovery' to ensure its response to the issues that impacting on the Council and its residents is appropriate.

The Council's Corporate Committee acts as the audit committee for the Council and has the appropriate status within the organisation to challenge management and obtain assurance on the operation of the internal control framework. The Committee as a whole has a wide range of responsibilities, which includes addressing governance issues, and receives reports on specific internal control issues as they are considered appropriate. The Corporate Committee met regularly throughout the year, receiving a range of reports on internal controls and other issues. Where, through its review and challenge, the Committee identifies areas where it requires additional assurance or considers a review is necessary reports are brought to future meetings.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance, with the exception of the matters that we report at page 17.

3. Commentary on VFM arrangements

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



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1</p> <p>How the Council uses information about its performance to improve</p> <p>In 2017 the Council established Homes for Lambeth (HfL) as a wholly owned subsidiary company to help deliver it's affordable housing strategy. In April 2020, the Council agreed the first 3 year business plan for HfL, together with a 25 year pipeline capable of providing c. 5,000 homes. Over the course of the first two years of that business plan the Council became aware that it needed to see improvements in the governance and management of HfL and that housing delivery needed to be enhanced.</p> <p>In July '22 the Council commissioned an independent review of the Council's management of, and working relationship with, it's wholly owned subsidiary company. The review was commissioned because the company's delivery of new houses was well behind plan, was receiving criticism from some residents and Members had concerns over the governance of the company and the effectiveness of the Council's scrutiny.</p>	<p>Work undertaken</p> <p>In summary the report's findings identified that HfL had underperformed. The rationale for the findings relate to how HfL operated, ambiguity in the original brief it was responding to, unclear governance arrangements and poor working relationships with the Council. These meant that the Council was unable to deliver its affordable housing strategy and in particular the number of new housing units that meet the affordable housing definition.</p> <p>We have reviewed the report and the Council's response in respect of our value for money (VFM) responsibilities.</p> <p>The Council was aware of performance issues at HfL, some of which were related to the impact of the Covid-19 pandemic. During 2020, the Council's Overview and Scrutiny Committee commissioned a review of the structure and governance arrangements of HfL, the Council's governance arrangements for engaging with HfL and the working relationship between the parties. A report was presented to the December 2020 meeting of the Overview and Scrutiny Committee. Since then the Council has taken actions seeking to improve the performance of HfL including revising the approval process for small sites and reviewing the gateway process for estate regeneration. However, the performance of HfL and its direct delivery route for affordable housing has not improved in the 2021/22 financial year.</p> <p>Results of our work</p> <p>We consider that there is sufficient evidence of a significant weakness in the Council's VFM arrangements for the financial year ending 31 March 2022 for how it uses information about its performance to improve the way it manages and delivers its services, specifically assessing how it evaluates the delivery and performance of its affordable housing strategy and identifying areas for improvement.</p>

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

The Council’s arrangements for assessing performance and evaluating service delivery

The Council prepares combine performance monitoring and financial monitoring reports which are considered by departments / service lines, senior management, Cabinet and Overview & Scrutiny Committee. This reporting is both separate to, and part of the overall budget monitoring. Financial monitoring reports include analysis of the information about the financial pressures fort services and departments, how the Council is responding to them, as well as updates on the impact of the pandemic and management of associated financial costs / funding received. As this analysis highlights changes in service demand, whatever the cause, and included the impact of the many government initiatives and policies on the Council’s financial and operational performance.

These reports are used to identify service delivery challenges, for example where there are increased costs as a result of work to address service backlogs or underlying underperformance. Where such issues are highlighted through financial monitoring, the resources required as an investment to address this are identified. The pandemic resulted in many of the key performance indicators (KPIs) being suspended due to the focus on Covid-19 pressures, but has now resumed with . Performance reporting continues to be reviewed to ensure it responds to both the actions committed to in directorates business plans and the performance against the Tier 1 and 2 performance indicators for meeting the Borough Plan pillars

As part of the ongoing budget monitoring the Council has developed a range of agreed performance indicators for all directorates at two levels, Tier 1: Borough indicators for the four main objectives of the Borough Plan, and Tier 2: Priority Service KPIs supporting the above. These indicators are reviewed by Services and reported initially to senior officers so that issues requiring action are understood and actioned. Detailed performance commentary is prepared for various levels, including summary high level analysis within Finance and reporting performance to Cabinet.

In addition to the corporate performance reporting, the Council completes a range of internal

performance and management reporting to evaluate performance and identify areas for improvement.

The Council’s arrangements for effective partnership working

Through various committees the Council monitors the work and associated service delivery of its key partnerships including the mitigating changes to risks as set out in the applicable risk register. Among the Council’s key partnerships are those with its wholly owned housing subsidiaries (Homes for Lambeth) and its relationship with health care partners as part of an integrated health and care system (Lambeth Together).

The Council owned housing companies, Homes for Lambeth (HfL), have worked with the Council as a significant customer and have developed business plans to support the delivery of services by the Council. There are governance arrangements in place within the Council to provide oversight of the companies and their working as the volume of work have continued to increase and specific projects, which had been subject to some delay.

As we have reported on page 17, the Council is taking actions to improve the governance of its management of HfL. A number of significant changes to the existing arrangements will arise from the developing actions, with an associated impact on service provision and the group financial statements.

The Council has continued to work closely with the local healthcare partners to manage health and social care services in light of the continued and changing impact of the pandemic on both sectors. The response to the pandemic resulted in the Council becoming part of the Lambeth Together, to provide help focus the overall leadership and drive a fully integrated health and care system by bringing together the current work and planning to seek improvements in health and wellbeing and reduce inequalities. This is being delivered through the Lambeth Together Transformation

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

Programme, which has a focus on strategic outcomes for better population health, along improved experiences of both receiving care and providing care.

Subsequently the Council worked with partners to develop a Recovery Plan, recognising that they need to continue to work together through the various arrangements to address delivery issues and ensure further learning and adaption. Actions arising from the plan have taken account of the experience from the pandemic responses and the awareness of the existing inequalities in health outcomes of Lambeth’s population.

The Council’s arrangements for procurement and commissioning services

The Council’s Constitution contains details of the Procedure Rules supporting the Procurement policy and strategy, which set out the process that the Council must follow when procuring goods or services. We have reviewed the procedure rules and confirmed that these appear comprehensive and cover the quotation and tender process, any use of frameworks, the post tender evaluation and development of relevant contract monitoring processes. The constitution includes separate details on the process to be followed when entering into individual contracts arising from a procurement process.

The Council has a Procurement Unit that provides a lead and direction on the procurement and commissioning of services. To support this the Council has an electronic contract management system (eCMS) that provides an analysis of timing for contracts and subsequent procurement process. This register allows the Council to be able to plan and monitor its procurement and commissioning activities well in advance of need. The Council has a dedicated Head of Procurement, Finance and Investment, supported by a Contracts Manager, who are developing and implementing a Council-wide contract management framework.

The Head of Procurement, Finance and Investment, and Corporate Contract Management unit, are responsible for working with commissioners to shape the Council’s strategic plans for contract management, as well as assisting in developing specifications, identifying opportunities for improvement within contracts, reviewing contract management information, monitoring KPIs, considering the value for money of contracts and ensuring that the contracts stay up to date throughout the period. The Council publishes both its Contract Register and a three year Procurement Plan detailing what the Council buys, dates for existing contracts and known information about new procurements we are planning.

Where contract management information suggests that contracts are not being delivered to the specification, the Council seeks to engage with suppliers to develop and implement improvements to processes and service delivery. The maintenance of dialogue with suppliers is crucial in managing the relationship, delivering services and in ensuring disputes and disagreements are minimised. The Council establishes expected outcomes and benefits from procurement in a series of key performance indicators within contracts, these being specific to each contract, and subject to active monitoring to ensure the benefits are being delivered.

In addition, as part of its procurement the Council continues to be committed to responsible procurement, a process whereby the Council seeks to meet its need in a way that achieves value for money on a whole life basis that generates benefits to the Council, society, the economy and the environment.

Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to improving economy, efficiency and effectiveness.

3. Commentary on VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



3. Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Council’s arrangements to secure economy, efficiency and effectiveness its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p>1 Governance arrangements in relation to Home for Lambeth</p> <p>Weakness in the Council’s governance arrangements for managing the performance of Homes for Lambeth, specifically how the Council ensured it made properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.</p>		●		<p>To ensure that the recommendations made in the review are acted upon and implemented we recommend that the Council puts in place robust arrangements to monitor the implementation of the action plan. This should include ensuring that the actions have an appropriate and sustainable impact on its affordable housing strategy.</p>	<p>On the basis that the Council has accepted all the recommendations of the review we recommend that the Council ensures it has robust arrangements in place to monitor the implementation of the action plan to ensure it is having an appropriate and sustainable impact on its affordable housing strategy</p>
<p>2 How the Council uses information about its performance to improve</p> <p>Weakness in the Council’s arrangements for improving economy, efficiency and effectiveness and how it uses information about its performance to improve the way it manages and delivers its services, specifically assessing how it evaluates the delivery and performance of its affordable housing strategy and identifying areas for improvement.</p>			●		

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors 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 the law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2020/21 audit.

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.

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 have yet to complete this work.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Corporate Committee in March 2022. Having completed our work for the 2021/22 financial year, we have agreed final fees with the Interim Strategic Director of Finance & Investment:

Area of work	2020/21 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£160,038	£160,038
Additional fees in respect of the new VFM approach and responding to significant risks	£10,500	£17,100*
Additional fees in respect of changes in scope (including additional work on PPE valuation, IAS19, Going concern)	£21,950	£21,700*
Additional fees in respect of the Redress scheme and associated changes in accounting	-	£3,230*
Additional fees in respect of the required audit of Group accounts and associated disclosures	£8,200	£8,200
Total fees	£200,688	£210,268*

* Fees confirmed

Fees for other work

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

Suresh Patel, Partner

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*where permitted under applicable country laws.