Lambeth Council

Report to the Corporate Committee on the audit for the year ended 31 March 2015
“I am pleased to present our report on the findings from our 2014/15 external audit.”

Sue Barratt, Engagement Lead Partner

A reminder of our audit plan:

- Materiality: £12m and threshold for reporting misstatements: £240k.
- Significant risks over fraud in recognition of grant income, the data migration on upgrade to Oracle R12, the operation of the Goods Received Not Invoiced (GRNI) Account, the accounting for non-current assets used by local authority maintained schools and management override of controls.
- In addition, since the issue of our audit plan, we have re-considered the classification of risks in respect of the valuation of pension liabilities and the valuation of properties resulting in their reclassification from normal to significant. Our plan included a commentary on our approach to these two account balances and there is no change to the scope of our planned work arising from the change in classification of risk.
- We have taken a fully substantive audit approach.
The big picture
The Big Picture

Our work on the financial statements is ongoing and in particular we have concerns over the approach to the valuation of properties

Statement of accounts

- The key judgement areas were in relation to: (a) the valuation of properties; (b) the valuation of pension liabilities; (c) the estimation of bad debt provisions; (d) the preparation of group accounts. The Code of Practice on Local Authority Accounting sets out disclosure requirements in relation to key areas of judgement.

Audit work on the financial statements

- Grant income recognition - We focused on the judgements made by officers in determining the basis of recognition for individual grants. We have concluded satisfactorily on this area, except that we need to finalise our testing of the benefit subsidy grant.
- Migration of data on upgrade to Oracle R12 – Implementation of the Oracle upgrade was completed during summer 2014. The implementation required the migration of data from the previous version, 11i to the new R12 version. We concluded satisfactorily on the completeness of data transfer.
- Operation of the GRNI account – The way in which Oracle R12 has been implemented enables initial capture and recording of liabilities in the accounting records in a different and more automated way. We identified a significant risk because we were concerned that plans to reverse entries to the GRNI account at year end and replace with accruals made by manual journal may cause confusion. Officers identified issues over the way in which the new arrangements were operating during the year. As a result of the mitigating steps taken by management in response, this new process, in material respects, ceased to be used for monthly and year end accruals accounting purposes. We therefore re-focused our work on the validity of the debit balance recorded on the GRNI account and concluded satisfactorily.
- Accounting for non-current assets used by local authority maintained schools - CIPFA published new accounting guidance for the treatment of these assets. We identified a risk over whether this guidance was implemented appropriately and in full. CIPFA provided a generalised accounting analysis for the different categories of schools but emphasised that local authorities will need to determine whether the situation and accounting analysis it described are applicable in each case. Officers had processed entries in line with the generalised analysis but had not completed the more detailed analysis and we are awaiting the outcome of this. There were errors in the processing of accounting entries arising from officer’s initial analysis which officers indicate will be corrected in the final version of the financial statements.

Our audit work is ongoing and we will update the Committee orally at the meeting on open items.

We have now received the initial version of the Whole of Government Accounts return. The working draft prepared by the Council will require revision for changes made to the financial statements in the course of the audit.

We have received objections to the accounts and are finalising our work on these, but do not anticipate we will be in a position to issue our audit certificate at the same time as our opinion on the financial statements.
The Big Picture (continued)
We expect to issue a qualified, “except for” conclusion on value for money

Audit work on the financial statements (continued)

- Valuation of pension liabilities – We identified this as a risk in view of the size of the account balance and the level of judgement involved in its estimation. We concluded that the judgements made were reasonable, albeit at the prudent end of the acceptable range in view of the approach taken by the actuary to determine inflation based assumptions. The position is similar to last year.

- Valuation of properties - We identified this as a risk in view of the size of the account balance and the level of judgement involved in its estimation. The Council appointed a new valuation expert to revalue properties in 2014/15. We have made a number of challenges to the approach and methodologies used and we are not yet satisfied on all of the points raised. We are working with officers and the Council’s valuation expert to resolve these differences.

- Management override of controls - Auditing standards presume that there is always a risk of management override of controls. We did not identify any areas of concern from our work but need to finalise our testing of a small number of our journal selections.

- We report on progress on control deficiencies reported to you in the prior year, together with additional observations made this year. There are four current year and five open prior year control findings. We have rated one, dealing with property valuations, as requiring significant improvement.

- We identified a number of misstatements and discuss the more significant items throughout this report. Officers have agreed to correct all misstatements we have reported to them. We will provide an update at the meeting if any misstatements above our reporting threshold remain uncorrected.

Value for money conclusion

- Our conclusion is given against two reporting criteria.

- In respect of the first, dealing with the financial resilience of the Council, we have noted the progress made by the Council in closing its funding gap during 2014/15. We are discussing a sample of individual savings schemes with officers, but subject to the satisfactory conclusion of that work, expect to issue an unqualified conclusion in respect of this reporting criterion.

- In respect of the second, dealing with the Council’s arrangements for challenging how it secures economy, efficiency and effectiveness, we expect to issue a qualified conclusion. This reflects the issues raised by regulators during the year, as well as the issues raised through the Council’s own review of the effectiveness of its internal control and governance arrangements, as reflected in its Annual Governance Statement.
Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and disclosure matters within the financial statements.
Grant income recognition
We focused on the judgements made by officers in determining the basis of recognition for individual grants. We concluded satisfactorily except that we need to finalise our testing of the benefit subsidy grant.

Nature of risk
The Council received grants and contributions totalling £0.9 billion.
Accounting for grant income can be complex as the timing for recognising income in the accounts will depend on the scheme rules for each grant. Under the Code, income from grants is recognised as soon as all conditions have been met.
We have retained this as a risk in view of the size of this income stream and some of the complexities around recognition of individual grants.

The key judgement area(s), its impact on the financial statements and our audit challenge
Following an evaluation of the design and test of the implementation of officers’ controls over grant income recognition, we carried out extended testing to check that recognition of income in 2014/15 properly reflects any conditions within the grant offer letter and accompanying documentation.
We did not identify any exceptions from our work.
Our work on testing entitlement on the benefits grant is in progress.
Migration of data on upgrade to Oracle R12 and appropriate mapping of information to the financial statements

We concluded satisfactorily on the completeness of data transfer. Comparative information needs to be restated to make it comparable to current year mappings

Nature of risk

Implementation of the Oracle R12 upgrade of the main accounting system was completed during summer 2014. The implementation required the migration of data between the previous instance of the system, 11i, and the new version, R12 and we identified a risk around this process. In addition the reporting structure within R12 is not identical to the previous version, 11i, and as a result there is a risk that the mapping of account codes to the financial statements is not consistent with last year and with CIPFA’s Service Reporting Code of Practice.

The key judgement area(s), its impact on the financial statements and our audit challenge

We understood the arrangements the Council put in place over the transition to the new system, including the control checks put in place and testing of the completeness of the data transfer and evaluated the design and tested the implementation of these arrangements. We utilised an IT specialist to assist us with this work.

Using our proprietary Spotlight software, we reconciled the opening trial balance for the year to the closing trial balance and a full reconciliation of the transactions for the year to the closing trial balance.

We carried out tests on the consistency of the grouping of account codes for financial reporting purposes with last year and with CIPFA’s Service Reporting Code of Practice. Through this we identified areas of inconsistency with last year. We are content with the treatment in the current year, but have asked officers to consider adjustment to prior year comparative information so that it is prepared on a comparable basis.

The most significant area is the treatment of expenditure on supporting people where the different treatment between years has given rise to an apparent change in the allocation of resources from adult social care to housing services of approximately £30 million which does not reflect the actual position.
Operation of the GRNI account
We refocused our work to test the debit balance on the GRNI account at year end and concluded satisfactorily

Nature of risk
Last year the process for the capture and recording of accruals information was substantially manual. The way in which Oracle R12 was implemented enables a more automated approach where, for transactions where a purchase order has been raised, an accrual is automatically recorded in the system once the order has been “receipted” in the system.

At the time of the issue of our audit plan, officers intended to use this new functionality as part of its routine processes during the year, but as part of its year end closure processes, to reverse out entries in the GRNI account and replace with manual accruals and use this information as a basis for preparation of the financial statements. We were concerned that the use of a different process at year end compared to month end may give rise to confusion and identified a risk as a result.

During 2014/15, the finance team identified a number of issues over the operation of this aspect of the system, including instances where:

• Purchase orders which had only been partly fulfilled were receipted in full
• Purchase orders had not been receipted on a timely basis
• Errors had been made in the entry of quantity information on receipting.

As a result of the mitigating action taken by the finance team in response to these issues, in material respects this aspect of the functionality of the system has not been used in the latter part of the year for the Council’s in-year reporting processes, with receipting of the goods or services taking place only on receipt of the invoice – so that, at the balance sheet date, only £0.2m of accruals were recorded through this means with the remaining £80.3m captured through the same, manual process as last year.

Because there was no difference between the accruals process adopted at this year end and either the previous year end or the routine processing and month end process in the latter part of the year, we refocused our risk to test the validity of the debit balance of £12m which remained on the GRNI account.

The key judgement area(s), its impact on the financial statements and our audit challenge
We understood the design and test the implementation of controls over the GRNI account.

We tested a sample of amounts within the GRNI account. These related to capital transactions where the practice is to receipt purchase orders only on completion of the project. As a result debit entries made to the GRNI account on receipt of invoices for stage payments remain unmatched. Normally, we would expect these debit amounts to have been cleared from the GRNI account, and taken to capital expenditure, by the action of the relevant service manager “receipting” the amount on the system (i.e. confirming in the system that the goods or services have been received). In the absence of further, manual intervention, these debits could indicate that expenditure which has been incurred, has not been recorded in error. We tested for our sample that this manual intervention had occurred, through raising a manual journal to accrue for the capital expenditure. Whilst the debit in the GRNI accounts sits in a different account within Oracle to the liability created by the manual journal, as these accounts are mapped to the same line within the financial statements, there is no impact on the presentation of the financial statements. The results of this testing were satisfactory.
Accounting for non-current assets used by local authority maintained schools

We concluded satisfactorily on the completeness of data transfer

Nature of risk

LAAP BULLETIN 101 - Accounting for Non-Current Assets Used by Local Authority Maintained Schools – was issued in December 2014. The Bulletin is designed to give practical guidance on the circumstances in which non-current assets should be recognised and accounted for on a local authority balance sheet.

The recognition of the non-current assets outlined above is deemed to be a change in accounting policy if non-current assets are not recognised currently in the local authority balance sheets. Alternatively, it might require assets to be derecognised. The Bulletin sets out transitional arrangements for these situations.

The Bulletin provides a generalised accounting analysis for the different categories of schools and conclusion based on the likely situation.

However, the guidance emphasises that local authorities will need to determine whether the situation and accounting analysis described in the Bulletin are applicable in each case.

The key judgement area(s), its impact on the financial statements and our audit challenge

We assessed the design of the Council’s arrangements for reviewing the accounting for non-current assets used by schools in the light of the guidance provided in the Bulletin.

The Council adopted a treatment for non-current assets which reflected the generalised accounting analysis in the Bulletin which has resulted in the non-current assets of Foundation Schools coming on balance sheet for the first time. As a result, the accounts now reflect the following treatment:

<table>
<thead>
<tr>
<th>Type of school</th>
<th>This year’s accounts</th>
<th>Last year’s accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community schools</td>
<td>On balance sheet</td>
<td>On balance sheet</td>
</tr>
<tr>
<td>Foundation</td>
<td>On balance sheet</td>
<td>Off balance sheet</td>
</tr>
<tr>
<td>Free</td>
<td>Off balance sheet</td>
<td>Off balance sheet</td>
</tr>
<tr>
<td>Voluntary aided</td>
<td>Off balance sheet</td>
<td>Off balance sheet</td>
</tr>
<tr>
<td>Voluntary controlled</td>
<td>On balance sheet</td>
<td>On balance sheet</td>
</tr>
</tbody>
</table>

Whilst the accounts reflect the most likely position anticipated by the LAAP Bulletin, the recommended research and accounting analysis has not been completed for all assets. This has recently been received and we are discussing the scope and results of the work done with officers.

We made a number of detailed comments on the accounting entries made which officers are responding to as set out below:

- In accordance with the guidance, the change in treatment has been accounted for as a change in accounting policy and the comparative information balance sheet information restated. However, this was not correctly actioned in the unusable reserves note or the Comprehensive Income and Expenditure Statement as the addition of the assets to the balance sheet there was treated as an in year valuation gain. Officers have indicated this will be updated in the revised version of the financial statements. This impacts on the report total comprehensive income by £32 million, but does not impact on the General Fund balance.

- The Code requires presentation of a third balance sheet to show the opening position for the comparative period on change of accounting policy. It is acceptable to not present a third balance sheet where the impact of the change is not material. Officers have indicated their intention to revise the financial statements to present a third balance sheet.
Accounting for non-current assets used by local authority maintained schools (continued)

- In accordance with accounting requirements, the initial version of the financial statements included a note describing the change in accounting policy and the reasons for it. We have proposed that the disclosure be extended in relation to the impact of the change on the prior year information. Officers have indicated this will be updated in the revised version of the financial statements.

- The assets have been recorded at the same gross book value for the three balance sheet dates concerned. As relevant building cost indices indicate annual increases of only up to 5%, we have agreed that this is reasonable in material respects.

- No depreciation was charged. Officers have indicated this will be updated in the revised version of the financial statements.
Valuation of pension liabilities

The judgements made are at the prudent extreme of a reasonable range. The position is similar to last year.

Nature of risk

The pension liability is substantial so that its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions which draw on market prices and other economic indices can be volatile.

We did not identify pension accounting as an area of significant audit risk in our planning report as there is no impact on the General Fund from the accounting entries made under IFRS. However, as a result of the significant increase in the account balance, we have subsequently reclassified this risk from normal to significant.

The key judgement area(s), its impact on the financial statements and our audit challenge

We considered the qualifications, relevant expertise and independence of the actuary. We included a specialist from our team of actuaries in our engagement.

The key driver of the increase in the provision is a reduction in the discount rate assumption from 4.4% to 3.3%. The Council’s proposed discount rate assumption of 3.2% p.a. has been derived using a “single equivalent” approach, which produces a rate based on the UBS AA corporate bond curve for shorter terms and a government bond curve, with a spread applied, for longer terms. The cash flow data for a scheme with a “medium” duration is used to derive the single equivalent rate. This is slightly different to the methodology at the prior year end where the yield curve used as part of the single equivalent approach was based solely on AA rated corporate bonds. The methodology for both years is broadly in line with our preferred approach, although we would prefer more account to be taken of the scheme’s actual duration. Nevertheless we regard the assumed rate of 3.20% to be reasonable.

The other main area where there was a difference between the practice adopted by the actuary and our preferred approach is in determining inflation related assumptions. It is common actuarial practice to apply a deduction to the market implied RPI inflation to allow for an inflation risk premium (“IRP”). An IRP makes allowance for the additional premium investors are assumed to pay for protection against inflation and for any other distortions due to such factors as an under supply of index linked gilts. In this case, no deduction has been made to allow for an IRP. This is consistent with the approach at the previous year end, but typical actuarial practice is to make a deduction of around 0.25%. As a whole, the resulting inflation related assumptions are reasonable, albeit relatively prudent due to the absence of an IRP deduction.

When considering the suitability of assumptions it is important to consider the assumptions in aggregate to determine the strength of the set of assumptions as a whole. In particular, the results are very sensitive to the difference between various assumptions. An optimistic assumption may be balanced by an offsetting prudent assumption or vice versa. The chart below for Lambeth’s section of the Lambeth Pension scheme gives an indication of the broad impact on the liability value of setting the main assumptions to be in line with our illustrative benchmark assumptions. This is not intended to imply that the value calculated by the actuary is inappropriate. We have concluded, taken as a whole, the assumptions are reasonable, albeit at the prudent extreme of the range. This is similar to our conclusion last year.
Valuation of pension liabilities (continued)

Our conclusion for the Lambeth section of the London Pension Fund Authority scheme and for the amount of the Lambeth Living section of the Lambeth Pension scheme included in the Council’s balance sheet is that there is a similar level of prudence, albeit that the monetary impact is less, taking into account the much smaller size of these schemes.

On bringing back Lambeth Living staff in-house, the Council will take responsibility for the post transfer service of Lambeth Living employees, bringing the remainder of the pension deficit attributable to Lambeth Living employees on to the Council’s balance sheet. We have considered whether there are any changes required to 2014/15 as a consequence of the decision to close Lambeth Living and concluded that there is not, taking into account the timing of the final decision to close the subsidiary, in April 2015, after the balance sheet date.
Valuation of properties

We have made a number of challenges to the approach and methodologies used and we are not yet satisfied on all of the points raised.

Nature of risk

The Council has a substantial estate which is subject to a rolling programme of valuations. The carrying value at 31 March 2015 was £2.7 billion.

We identified this as a risk in view of the size of the account balance and the level of judgement involved in its estimation.

We did not identify the valuation of properties as an area of significant audit risk in our planning report as there is no impact on the General Fund from the accounting entries made under IFRS and this aspect of the balance sheet does not have the same focus for users of the accounts as is the case for a corporate.

However, as a result of a change in the valuation experts used by the Council, and taking into account the views of our regulator, we have subsequently reclassified this risk from normal to significant.

Over the last few years, the Council has revalued properties on a five year rolling programme structured by directorate. This year properties held, prior to the organisational restructure, by the Finance and Resources and Office of the Chief Executive directorates, were subject to a full valuation, carried out with an effective date of 31 March 2015. In addition the Council commissioned a full revaluation of assets where construction works were completed during 2014/15, the Foundation schools which came onto balance sheet for the first time this year and desktop reviews of other significant properties. We have summarised the position in the table below.

<table>
<thead>
<tr>
<th>Category</th>
<th>Date of last full valuation</th>
<th>Type of valuation at 31 March 2015</th>
<th>Value at 31 March 2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dwellings</td>
<td>1 April 2010</td>
<td>Desktop valuation at 31 March 2015</td>
<td>2,014</td>
</tr>
<tr>
<td>Finance and Resources and Office of the Chief Executive properties</td>
<td>n/a as full valuation at 31 March 2015</td>
<td>Full valuation at balance sheet date</td>
<td>62</td>
</tr>
<tr>
<td>Foundation schools</td>
<td>n/a as full valuation at 31 March 2015</td>
<td>Full valuation at balance sheet date</td>
<td>37</td>
</tr>
<tr>
<td>Properties transferred out of assets under construction in 2014/15</td>
<td>n/a as full valuation at 31 March 2015</td>
<td>Full valuation at balance sheet date</td>
<td>15</td>
</tr>
<tr>
<td>Other properties</td>
<td>Various - 1 April 2010 to 31 March 2014</td>
<td>Desktop valuation at 31 March 2015</td>
<td>335</td>
</tr>
<tr>
<td></td>
<td></td>
<td>None</td>
<td>6</td>
</tr>
</tbody>
</table>

All properties are valued in accordance with the Royal Institution of Chartered Surveyors Valuation and Appraisal Standards. The valuations carried out in 2014/15 were performed by Wilks, Head and Eve (“WHE”).

The key judgement area(s), its impact on the financial statements and our audit challenge

Where assets are re-valued (that is, the carrying amount is based on fair value), the Code requirement is that assets must be re-valued at least every five years as a minimum, but more regularly where a five-yearly valuation is insufficient to keep pace with material changes in fair value. The Council has addressed the requirement to keep valuations up-to-date by obtaining a formal desktop valuation covering the vast majority of the account balance.

The desktop revaluation of dwellings resulted in a gain of 27% in 2014/15 and a cumulative gain over the last three years of 50%. This compares to increases in the wider Lambeth market, based on Land Registry records of 17% and 47% over 2014/15 and the last three years respectively.
Valuation of properties (continued)

We note that this represents a crude comparison as the Land Registry benchmark measure is typically driven by the sale of premium properties which are not likely to reflect the Council’s estate. Nevertheless it provides some indication of the direction and scale of change. In addition, as WHE have performed research on the individual properties, rather than applying the market based indexation method used by the previous valuer, some correction implicit in the percentage gain would be expected.

In reviewing the work of the valuer, including the instructions given to them and their relevant experience and qualifications, we have engaged internal experts from our firm to assist us. They have made a number of challenges, in particular over the approach and methodologies used to value the schools. This category has recorded a net revaluation loss of £60 million which is contrary to a general rise in building costs of 3-4% and increase in land values.

From the above it is clear that material adjustments may be required to the valuation. We are currently working with officers and the Council’s valuation expert to understand the valuation movements and to resolve wider issues over approach and methodology. We will provide an update to the meeting.
Management override of controls
We have not identified any issues from our work to date.
Testing of some journal selections remains outstanding

Nature of risk
Standards on auditing include a presumption of a risk of management override of key controls which cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to prevent inaccurate or even fraudulent financial reporting.

The significant risk in relation to management override, its impact on the financial statements and our audit challenge
Our audit work is designed to test management override of controls and key estimates.
We have summarised our findings above on the key estimates around grant income recognition, the, pension liability and valuation of properties.

Other audit work completed to address the significant risk
Specific areas of work are:

Journals
In testing journals, we analysed the whole population of journals to identify those which had features which could be indicators of possible fraud and to focus our testing on these. The sample we selected included items from the following categories of interest:

- Journals which were backdated more than 60 days
- Journals with a line item whose value is a round sum amount.
- Journals posted around period end with poor descriptions that impact in a manner that is of interest.
- Journals which include key words of interest
- Journals to seldom used accounts
- Largest journal lines
- Journals posted on specific non-business days including weekends, bank holidays and user defined dates

There are journals where we require further information to complete our work. There are no issues identified to date.

Our Spotlight tool enables us to analyse the population and draw insights from the data. We have included below some examples of this.

<table>
<thead>
<tr>
<th>Distribution of posting frequency</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Graph" /></td>
<td>No entries were made in the year to approximately one quarter of all account codes in Oracle.</td>
</tr>
</tbody>
</table>

* Quarterly indicates the number of accounts posted to at most once every financial quarter
Periodically = at most once every financial period; Weekly = at most once every week;
Daily = at most once every day; and Regular = more than once every day.
Management override of controls (continued)

<table>
<thead>
<tr>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>The year end closure process typically works more smoothly in entities where monthly and quarterly processes are operate in a similar way to the year end. The volume and value of journals posted to Month 12 illustrates how different the year end process is compared to processes that operate during the year.</td>
</tr>
<tr>
<td>The presence of a large volume of low value journals may mean that the Council is raising journals in situations where it is unnecessary.</td>
</tr>
</tbody>
</table>

**Accounting estimates**
In addition to the key estimates discussed above, we have tested the basis for other estimates used in the financial statements, including provisions and bad debt provisions, and have not identified any evidence of management bias from our work to date.

**Significant transactions**
We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.
Other matters in your financial statements
Other matters in your financial statements

We comment on other key areas of judgement and other matters which do not represent significant audit risks

Issue – Preparation of group accounts

The Council has interests in other entities which fall within its group boundary. The Council has not prepared group accounts as officers have concluded that all interests can be excluded from consolidation because they are individually and in aggregate immaterial.

The Council has made disclosures relating to entities excluded from consolidation.

The principal exclusion is Lambeth Living. In addition Mary Seacole Limited which is controlled by the Council. This holds a single asset, a library in Clapham under a finance lease. Under the Council’s accounting policies, this would be accounted for at valuation. The estimated construction costs for the library was £4.6m which provide an indication of its value.

Key financial information from the draft accounts for 2015 and 2014 published accounts for Lambeth Living and the estimated assets of Mary Seacole as described above are as follows:

<table>
<thead>
<tr>
<th>£m</th>
<th>Lambeth Living</th>
<th>Mary Seacole</th>
<th>Total 2015</th>
<th>Total 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>20.5</td>
<td>4.6</td>
<td>25.1</td>
<td>17.5</td>
</tr>
<tr>
<td>Net (liabilities)/assets</td>
<td>(13.0)</td>
<td>4.6</td>
<td>(8.4)</td>
<td>2.3</td>
</tr>
<tr>
<td>Turnover</td>
<td>27.7</td>
<td>-</td>
<td>27.7</td>
<td>27.2</td>
</tr>
<tr>
<td>Net (loss)/profit</td>
<td>(1.4)</td>
<td>-</td>
<td>(1.4)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Total recognised (loss)/gain</td>
<td>(10.4)</td>
<td></td>
<td>(10.4)</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Deloitte view

We have reviewed the updated position and agree with management’s assessment as to its immateriality. In respect of Lambeth Living and Mary Seacole Limited, our assessment takes into account that turnover, assets and liabilities substantially eliminate on consolidation. If group accounts were prepared, consolidated assets would exceed assets of the Council by £15.7 million (2014: £14.2 million), principally cash and PPE; and consolidated net assets would exceed net assets of the Council by £4.3 million (2014: £8.7 million). Similarly the vast majority of income is earned from the Council, including a management fee of £26.2 million (2014: £26.0 million) and would again eliminate on consolidation.

We have included a non standard representation in the draft management representation letter requesting confirmation of officers’ view that it is appropriate to exclude Lambeth Living on the grounds of immateriality.
Other matters in your financial statements (continued)

We comment on other key areas of judgement and other matters which do not represent significant audit risks

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**Issue – Infrastructure assets**

We note that the fixed asset register includes items described as “Maintenance of roads and footways, safety scheme, bus lane resurfacing, accessibility improvements etc.” and “Roads”.

The Council has not been able to provide a full cost analysis. The aggregate net book value of these two items at 31 March 2015 is £75 million.

We also reported on this issue last year in our equivalent report to the Corporate Committee.

**Deloitte view**

Officers consider that the full amount should be included on the balance sheet as, taking into account the nature of the assets, there is little risk that the assets would have been subject to subsequent replacement.

During the year the Council has de-recognised £11.2 million of works from infrastructure assets. The assumptions used in determining and calculating this amount contradict some of the assumptions made in forming past judgements on this issue and we are clarifying this with officers. Following additional analysis, officers have reassessed and propose to reduce this entry to approximately £1 million.

CIPFA have developed a new accounting system for infrastructure assets based on depreciated replacement cost. When implemented within the Code, this would resolve this issue.

We have included a non standard representation in relation to this matter in Appendix 3.
Value for Money conclusion
Value for money conclusion

We identified risks in relation to financial resilience and the arrangements to challenge VFM

Work performed

Under the Code of Audit Practice 2010 we are required to include in our audit report a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources - this conclusion is known as “the VFM conclusion”.

Our conclusion is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience. The focus of this criterion is on whether the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The focus of this criterion is on whether the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Risk assessment

We have carried out a detailed risk assessment. This included consideration of common risk factors identified by the Audit Commission, concluding on whether they represent actual risks for the purpose of our VFM conclusion. We undertook this work through review of relevant documentation, including committee papers and discussion with officers. We also considered whether there were other risks which might be specific to the Council. We did this principally through our consideration of what has been reported in the Annual Governance Statement, any concerns reported by regulators, other matters which have come to our attention from our work carried out in relation to our other Code responsibilities and concerns raised with us by local residents.

We are currently dealing with the following objections and concerns raised by residents in relation to:

- on-street parking penalty charge notices and linked matters
- housing improvements works, in particular decision-making in relation to the future of the Cressingham Gardens estate
- the management of the Council’s relationship with United Residents Housing and Loughborough Tenants’ Management Organisation.

We have concluded that these matters do not impact on our value for money conclusion or opinion on the financial statements.

Conclusion from risk assessment

On the basis of our work, and taking into account additional guidance issued subsequently by the Audit Commission, we identified two risks:

1. Financial resilience is dependent on delivery of a significant programme of savings
2. Concerns raised regulators – Ofsted inspection of safeguarding children and inspection of youth offending team – together with significant weaknesses in arrangements identified through the Council’s own review of the effectiveness of its governance and internal control arrangements.

We have discussed our response and conclusion on these risks below.
Value for money conclusion (continued)

Our work on one area of financial resilience is ongoing.

Risk to financial resilience

In forming our view on this risk we considered the following:

- Determined the amount of savings against the 2014/15 base budget which have been incorporated into the 2015/16 budget and MTFS for 2016/7 and 2017/18
- Determined the amount of savings over the period MTFS required to achieve balance spend with resources
- Assessed the level of information provided to members on individual saving schemes, including their impact, to inform their decisions on savings proposals
- Assessed the historical accuracy of the Council’s budgeting
- Determined whether there are concerns from financial performance during 2015/16 to date which call into question the robustness of savings estimates.

Our findings from these procedures were:

- In the February 2015 MTFS refresh, the Council had narrowed the gap:

<table>
<thead>
<tr>
<th>Budget/forecast deficit £m</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2014</td>
<td>(19.7)</td>
<td>(6.2)</td>
<td>(26.9)</td>
</tr>
<tr>
<td>February 2015</td>
<td>(2.4)</td>
<td>7.8</td>
<td>(23.6)</td>
</tr>
</tbody>
</table>

- The Council has a track record of responding to challenges posed by reductions in government funding. The underlying trend has been maintained with the aggregate position on General Fund and earmarked General Fund revenue reserves materially similar to the start of the year, so that reserves remain at a similar level to the position at the start of the current period of government funding cuts. Also, the Council has continued its track record of spending in line with its revenue budget in material respects, recording a small overspend of £1.2 million in 2014/15.

<table>
<thead>
<tr>
<th></th>
<th>General Fund reserve £m</th>
<th>Earmarked reserves £m</th>
<th>Total £m</th>
<th>Change over year £m</th>
<th>(Over)/underspend £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>23.6</td>
<td>63.0</td>
<td>86.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>24.9</td>
<td>67.8</td>
<td>92.7</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td>2013</td>
<td>24.7</td>
<td>68.0</td>
<td>92.7</td>
<td>+7.3</td>
<td>(0.5)</td>
</tr>
<tr>
<td>2012</td>
<td>25.2</td>
<td>60.2</td>
<td>85.4</td>
<td>(6.6)</td>
<td>(1.9)</td>
</tr>
<tr>
<td>2011</td>
<td>30.4</td>
<td>61.6</td>
<td>92.0</td>
<td>(3.5)</td>
<td>0.2</td>
</tr>
<tr>
<td>2010</td>
<td>28.7</td>
<td>66.8</td>
<td>95.5</td>
<td>(5.6)</td>
<td>(2.2)</td>
</tr>
</tbody>
</table>

A final procedure to assess the following in respect of a sample of planned savings schemes is in progress and we will conclude on this risk once this work is complete. This involves, for the sample of schemes selected, looking at:

- the challenge process which has been applied before inclusion of the scheme in the budget/MTFS
- the level of support for key assumptions
- the way in which the risk of non delivery of the scheme has been assessed and the arrangements for management of that risk.
Value for money conclusion (continued)
We expect to issue a qualified conclusion in respect of arrangements for challenging how the Council secures VFM

Risk to reporting criterion in respect of challenging how the Council secures economy, efficiency and effectiveness
We performed the following procedures:

- Read the reports issued by regulators, together with the Annual Governance Statement and relevant supporting papers and discussed with senior officers
- Assessed the significance of the points raised
- Determined the extent to which the issues arise from weaknesses in corporate arrangements

We have concluded it is appropriate to qualify in respect of this reporting criterion. In reaching this conclusion we have considered the following.

1) The unsatisfactory outcome of external inspections during 2014/15:

a. The Council received an assessment of “inadequate” for the review of services for children in need of help and protection, children looked after and care leavers and review of effectiveness of the local safeguarding children board

The previous inspection results for looked after children, adoption and fostering, all carried out in 2012, were all outstanding.

The underlying reason for these issues is identified by Ofsted as lack of leadership and management.

We have concluded that this is material to our conclusion because:

- This is a high profile, core service which is material in both quantitative and qualitative terms
- The inspectorate’s assessment is that the service is inadequate
- The corporate arrangements did not identify and address the deterioration in performance (or failure to respond to new challenges) over the last 3 years.

b. The Council received an unsatisfactory assessment of its youth offending service from HMI Probation.

The inspection does not receive an overall score, but the HMI Probation conclude that that since the last inspection in 2011 Lambeth YOS had made encouraging progress but had not yet achieved an overall satisfactory level of performance.

In the 2012 HMI Probation rated the youth offending service as unsatisfactory. We concluded that the unsatisfactory report did not impact on our conclusion in that year as it did not deal with a quantitatively significant part of the Council’s activities as a whole and was not echoed in concerns around in other areas, in particular external assessments made by Ofsted in the same year around some more significant services.
Value for money conclusion (continued)

This year we have concluded, in combination with other factors described in this section, this is material to our VFM conclusion because of:

- The failure in corporate arrangements to secure sufficient improvement in the period since 2011 to attain a satisfactory level of performance for this service
- The commonality of issues in relation to partnership working, governance arrangements and management oversight which form part of the issues in relation to looked after children and in other areas highlighted by the Council’s internal audit and discussed below
- Although a comparatively small service, in qualitative terms it is nevertheless important to one of the Council’s priorities, in particular: Crime reduces & People take greater responsibility in their neighbourhoods, which includes action on reoffending)

2) Weaknesses in governance and internal control arrangements discussed in the Council’s Annual Governance Statement

We have concluded that these matters are material to our VFM conclusion because:

- The weaknesses in corporate governance arrangements relate to significant aspects of those arrangements, in particular the lack of clarity of responsibilities and accountabilities in the new structure
- The Council did not identify and resolve issues which were identified through the external inspections during the year and there is a common theme in both internal audits and inspection reports over a lack of proper oversight.
- The level of non-compliance with Council policies or gaps in arrangements identified through the internal audit programme is significant.

We have set out below the wording of our draft VFM conclusion:
Value for money conclusion (continued)

We have set out our proposed wording for our VFM conclusion

Basis for qualified conclusion

In considering the arrangements the Council has put in place to challenge how it secures economy, efficiency and effectiveness, we have reviewed:

- the findings of the inspection of services for children in need of help and protection, children looked after and care leavers by Ofsted,
- the findings of HMI Probation’s inspection of the Council’s Youth Offending Team;
- the Council’s Annual Governance Statement and Head of Internal Audit opinion; and
- our audit evidence.

The Ofsted inspection of services for children in need of help and protection, children looked after and care leavers judged these services overall to be inadequate.

The HMI Probation inspection of Lambeth’s Youth Offending Team concluded that although improvements had been made since the previous inspection in 2012, the Team had not yet achieved an overall satisfactory level of performance.

The Council’s Annual Governance Statement reports on significant weaknesses in the framework of governance, risk management and control and non-compliance with controls during the year ended 31 March 2015, together with the Council’s action plan to address these weaknesses.

Having considered the findings and conclusions of the above inspections and the Council’s assessment in its Annual Governance Statement, together with our audit evidence, we are satisfied this provides evidence that elements of the Council’s corporate governance arrangements did not operate to challenge how it secures economy, efficiency and effectiveness in its use of resources.

Qualified conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported in the basis for qualified conclusion paragraph above, I am satisfied that in all significant respects Lambeth Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.
Responsibility Statement
Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Corporate Committee and the Chamberlain and Finance Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

What we don’t report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the board.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our Plan.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary “Briefing on audit matters” which was circulated with the Audit Plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP
Chartered Accountants
St Albans
17 September 2015

This report has been prepared for the members of the London Borough of Lambeth, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.
Appendices
Appendix 1: Fraud: responsibilities and representations

**Required representations**

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity or group.

**Concerns**

We have no concerns to report in relation to fraud from the work noted above or our audit procedures.

**Audit work performed**

In our planning we identified the risk of fraud in management override of controls and fraud in recognition of grant income as key audit risk for your organisation.

During course of our audit, we have had discussions with internal audit, management and those charged governance.

We discussed knowledge of actual or suspected cases of fraud, the assessment of fraud risk and arrangements for responding to the risk of fraud.

There were no material issues raised in relation to fraud and no adjustments were required to our audit plan.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
Appendix 2: Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), the Listing Rules and the Companies Act, we are required to report to you on the matters listed below:

<table>
<thead>
<tr>
<th>Section</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence confirmation</td>
<td>We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.</td>
</tr>
<tr>
<td>Fees</td>
<td>Details of the fees charged by Deloitte for the period from 1 April 2014 to 31 March 2015 are summarised on the next page.</td>
</tr>
<tr>
<td>Non-audit services</td>
<td>We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. We did not provide any non audit services in the year.</td>
</tr>
<tr>
<td>Relationships</td>
<td>There are no relationships, including the provision of non-audit services, we have with the Council, its members and senior officers and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</td>
</tr>
</tbody>
</table>
Appendix 2: Independence and fees (continued)

We summarise audit and non audit fees for the year

The professional fees earned or proposed by Deloitte for the period from 1 April 2014 to 31 March 2015 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015 £000</th>
<th>2014 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit of the Council</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base scale rate (Note 1)</td>
<td>277</td>
<td>275</td>
</tr>
<tr>
<td>Adjustment for withdrawal of NNDR3 certification requirement (Note 1)</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Adjustment for audit of amendments to accounts and additional reporting</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td>Fees for dealing with questions and objections from residents (Note 2)</td>
<td>-</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total audit fees</strong></td>
<td>277</td>
<td>295</td>
</tr>
<tr>
<td><strong>Audit related assurance services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certification of grants and returns on behalf of the Audit Commission (Note 3)</td>
<td>42</td>
<td>52</td>
</tr>
<tr>
<td>Certification of other grants outside the Audit Commission regime</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td><strong>Other non-audit services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total fees</strong></td>
<td>319</td>
<td>361</td>
</tr>
<tr>
<td><strong>Audit of the Lambeth pension scheme</strong></td>
<td>21</td>
<td>21</td>
</tr>
</tbody>
</table>

Note 1 – An additional fee was agreed in 2014 to cover the cost of auditing business rates information in the Collection Fund following the withdrawal of the certification requirement for NNDR3. Prior to 2014, we drew on the testing performed in certifying the NNDR3 claim for the purpose of our opinion on the financial statements. In 2015, the Audit Commission has rolled this additional fee into the base scale rate fee.

Note 2 - The fees reflect the cost of dealing with questions and objections through to 15 December 2014. Further costs incurred since that date will be invoiced at agreed rates after approval from the Council and the Audit Commission.

Note 3 – The fee is indicative depending on the scope of work required for this year by grant paying bodies in agreement with the Audit Commission.
## Appendix 3 Internal control and risk management
### Summary of observations and recommendations

<table>
<thead>
<tr>
<th>Risk</th>
<th>Observation</th>
<th>Recommendation</th>
<th>2015</th>
</tr>
</thead>
</table>
| **Management of sundry debtor arrears** | The Council has significant arrears of sundry debtors. For some of our sample selections, officers found it difficult to locate evidence to support the original debt or comment on the status of recovery action. In one case, a credit note of £0.2m had been issued against the original invoice of £0.5m. Officers could not readily explain and support the amount which had been credited. In this case the issue appeared to arise because of the departure of the member of staff dealing with original invoice. | Evaluate processes around the management of sundry debtors, including:  
- Administrative arrangements for filing and retention of support for invoices and credit notes raised  
- Identification and processing of write-offs on a timely basis  
- Management of recovery action. | ▼ |
| **Reconciliation of control accounts** | We identified one instance where payroll processed and paid by the Council on behalf of an academy school for July 2014, had not been invoiced by the date of our audit visit. As a result, a debit balance of £0.6m was carried forward on a control account at year end. We also identified instances where we were not able to readily explain how the balance on certain bank control accounts reconciled to the banks’ records. | Review and enhance arrangements which ensure that all balance sheet control accounts are reconciled on a monthly basis and any actions identified by the reconciliation process are closed on a timely basis. | ▼ |
### Appendix 3 Internal control and risk management

#### Summary of observations and recommendations

<table>
<thead>
<tr>
<th>Risk</th>
<th>Observation</th>
<th>Recommendation</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property valuation</strong></td>
<td>The Council has recorded a revaluation loss of £60m on its holding of schools. This was not consistent with the movement in general market and build cost data. Officers had not determined and challenged the reasons for this loss. The rolling valuation programme is currently organised around a previous directorate structure. The re-allocation of assets in future periods to match asset profile to new organisational structure could lead to a risk that some material assets could be overlooked for five yearly revaluation</td>
<td>Whilst the valuation of properties is carried out by an external valuer, the Council should review, understand and challenge the outcome of their work before incorporating the results into the financial statements. Re-design the rolling programme so that not dependent on organisational structures.</td>
<td></td>
</tr>
<tr>
<td><strong>Review of journals</strong></td>
<td>Our test of journals identified a number of journals which were correcting errors in past journals. The position was the same last year.</td>
<td>Consider the design and review the effectiveness of arrangements for the review and approval of journals.</td>
<td></td>
</tr>
</tbody>
</table>
# Appendix 3: Internal control and risk management (continued)
## Update on prior year recommendations

<table>
<thead>
<tr>
<th>Risk</th>
<th>Past finding and recommendation</th>
<th>Current year update</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation of pension liability</td>
<td>We commented on the way in which the discount rate and inflation assumptions have been derived in 2012/13 and recommended that the Council discusses this with the actuary as part of planning for next year’s accounts preparation. We were content in material respects with the way in which the discount had been derived, although our preferred approach would be to take greater account of the duration of the scheme in calculating the liability. The CPI inflation assumption was very prudent in 2013/14, due to no inflation risk premium being applied (typical practice is for an IRP deduction of 0.25% p.a.) and a relatively low deduction being applied to the RPI inflation assumption from which it is derived. We recommended that the Council discuss this with the actuary when instructing the actuaries to prepare next year’s calculations.</td>
<td>The position was substantially the same in the current year and we repeat our recommendation.</td>
<td>⬤</td>
<td>⬤</td>
</tr>
</tbody>
</table>

Report to the Corporate Committee 32
## Appendix 3: Internal control and risk management (continued)

### Update on prior year recommendations

<table>
<thead>
<tr>
<th>Risk</th>
<th>Past finding and recommendation</th>
<th>Current year update</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bad debt provisions</strong></td>
<td>We recommended the estimation process for sundry debtors is revisited to give consideration to individually significant debts and the age profile of debts under 1 year old. In respect of leaseholder service charge debt, the Council has assumed no recovery where debt is managed through TMOs or has passed to solicitors for collection. We understand this is due to the Council's more limited visibility of the status of collection of this debt. The amounts involved are comparatively small, but have greater monetary significance as they sit within the ringfenced HRA. We recommend an exercise is carried out going forwards to make a more detailed assessment of recoverability of these balances.</td>
<td>There is no change to arrangements and we repeat our recommendation.</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

---

Report to the Corporate Committee 33
## Appendix 3: Internal control and risk management (continued)

**Update on prior year recommendations**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Past finding and recommendation</th>
<th>Current year update</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resourcing the accounts closure process and internal review of the draft financial statements</strong></td>
<td>Officers have faced the challenge of finalising the financial statements and supporting the audit process following the loss of two key members and with competing demands from implementation of the Oracle upgrade as well as supporting the organisation in identifying and delivering savings. The Accounts and Audit Regulations require the Responsible Financial Officer to certify the accounts by 30 June. This did not happen until 11 July. Last year there were 5 local government bodies which did not meet this deadline. We received an updated version of the accounts on 1 September. Whilst there was no change to the General Fund balance, there was substantial revision of the analyses of balances disclosed throughout the financial statements. Some of these changes resulted from audit comments but also the Council’s internal review processes. Officer’s internal review processes should have been concluded prior to the certification of the statement of accounts and submission to us for audit. Review staff resource available to support the accounts closure process.</td>
<td>The financial statements were approved by the deadline of 30 June 2015. The quality of the initial financial statements was significantly better than in the prior year, although our work has suggested that further improvement can be made to its quality, including checking that items are appropriately classified in the financial statements. In addition, a number of the supporting working paper were not available at the start of the audit or needed re-working. We therefore repeat our recommendation to review the timetable for the production of the statement of accounts to ensure that adequate time is set aside for the review of the draft financial statements and collation and review of supporting working papers in advance of the start of the audit.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

Review timetable to ensure that adequate time is set aside for the review of the draft financial statements and collation and review of supporting working papers in advance of the start of the audit.
## Update on prior year recommendations

<table>
<thead>
<tr>
<th>Risk</th>
<th>Past finding and recommendation</th>
<th>Current year update</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of new guidance</td>
<td>We recommended the Council in general where management papers are prepared, ensuring they are in a form which explicitly and systematically demonstrates how the Council has complied with the individual requirements of the Code, statute or other relevant guidance. The recommendation was made in the context of issues on implementation of HRA self-financing and business rates retention in previous years.</td>
<td>There were again issues on implementing changes this year in relation to the schools non-current assets. This is discussed further in the section on significant audit risks. We therefore repeat our recommendation from previous years.</td>
<td><img src="" alt=" " /></td>
<td><img src="" alt=" " /></td>
</tr>
<tr>
<td>Billing of Section 20 arrears</td>
<td>Contributions receivable were double-counted within Oracle. The Council’s arrangements for ensuring that final bills had been raised on a timely basis by Lambeth Living were not clear. Following the decision to close Lambeth Living, responsibility for the administration of Section 20 billing will transfer to the Council. As part of the transfer of responsibility for the administration of Section 20 invoicing, implement a tracker to ensure that all final bills are raised on a timely basis. Re-consider arrangements for determining entries to be made for accrued income.</td>
<td>Billing was undertaken during 2014/15. We recommend this area is reviewed by internal audit following the in-housing of housing management activities to determine if arrangements are now secure in this areas</td>
<td><img src="TBC" alt=" " /></td>
<td><img src="" alt=" " /></td>
</tr>
</tbody>
</table>
We set out in draft the representations we request

Deloitte LLP
3 Victoria Square
Victoria Street
St Albans
AL1 3TF

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the London Borough of Lambeth (“the Council”) for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of the Council at 31 March 2015 and of the results of its operations, other comprehensive income and expenditure and its cash flows for the year then ended in accordance with applicable accounting framework and Accounts and Audit Regulations 2010.

We acknowledge our responsibilities for preparing financial statements for the Council which present fairly and for making accurate representations to you. For the avoidance of doubt, references to the Council should be taken as applying equally information in those financial statements dealing with Lambeth Local Government Pension Scheme.

We confirm, to the best of our knowledge and belief, the following representations.

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Accounts and Audit Regulations 2003 (as amended) which give a true and fair view.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “Related party disclosures”.

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Council or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council’s ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

7. The effect of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. The uncorrected misstatements and disclosures are included in the appendix to this letter.

8. Your testing identified an error where income of £22,000 had been incorrectly accrued. The effect of extrapolating this error to the remaining receipts in advance balance is £477,000. We confirm our assessment that the sundry creditors balance is not materially misstated, or the financial statements as a whole taken together with the misstatements and disclosure deficiencies referred to in the preceding paragraph.
Appendix 4: Draft management representation letter (continued)

We set out in draft the representations we request

9. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

10. We have reconsidered the remaining useful lives of the fixed assets and confirm that the present rates of depreciation are appropriate to amortise the cost or revalued amount less residual value over the remaining useful lives.

Information provided

11. We have provided you with all relevant information and access.

12. All minutes of member and management meetings during and since the financial year have been made available to you.

13. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

14. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

15. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

16. We are not aware of any fraud or suspected fraud that affects the entity and involves:
   (i). management;
   (ii). employees who have significant roles in internal control; or
   (iii). others where the fraud could have a material effect on the financial statements.

17. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

18. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.

19. We have disclosed to you the identity of the entity’s related parties and all the related party relationships and transactions of which we are aware.

20. No claims in connection with litigation have been or are expected to be received.

21. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

22. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

23. We are not aware of any events or changes in circumstances occurring during the period which indicate that the carrying value of fixed assets may not be recoverable.

24. We have evaluated whether the restrictions, terms or conditions on grants have been fulfilled with and deferred income to the extent that they have not.
Appendix 4: Draft management representation letter (continued)

We set out in draft the representations we request

25. We confirm that:
   - all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
   - all settlements and curtailments have been identified and properly accounted for;
   - all events which relate to the determination of pension liabilities have been brought to the actuary’s attention;
   - the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the Council’s best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
   - the actuary’s calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
   - the amounts included in the financial statements derived from the work of the actuary are appropriate.

Non standard representations

26. We note that the fixed asset register include items described as “Maintenance of roads and footways, safety scheme, bus lane resurfacing, accessibility improvements etc.” and “Roads” for which we have not been able to provide you with a full cost analysis. The aggregate net book value of these two items at 31 March 2015 is £75 million. We confirm to you our view that the full amount should be included on the balance sheet as, taking into account the nature of the assets, we consider that the assets would not have been subject to subsequent replacement and the life over which the asset has been depreciated is appropriate.

27. The Council has satisfactory title to all assets. In particular we confirm we have satisfactory title to the following properties which are registered to the former Greater London Council or Inner London Education Authority and that the basis of inclusion in the balance sheet is consistent with that title: Glenbrook Junior School and Stockwell Primary School. In addition, we confirm we have satisfactory title to the following property which is not registered and for which we are not able to locate the title deeds: Tate Library (Streatham) 63 Streatham High Road.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully