External Audit Report 2017/18

London Borough of Lambeth

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26 July 2018

IMPORTANCE NOTICE: This document explains the conclusion of our audit. Our work on our value for money conclusion is finalised. Our accounts audit, with the exception of our work on the redress scheme, will be finalised by the time of the Corporate Committee. We anticipate finalising our work on the redress scheme following that meeting. Should our work finalise without resulting in changes to our conclusion or figures in the statement of accounts we will issue a revised annex to this document to accompany the approved financial statements, which we suggest are authorised by the Corporate Committee Chair and Chief Financial Officer. If any changes are identified we will re-present this document to the next meeting of the Corporate Committee to finalise the statement of accounts. We have highlighted in green text on pages three and eleven the text which relates to where our work on the redress provision remains on-going.

Content

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This report is addressed to London Borough of Lambeth (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Thomas, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

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This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to London Borough of Lambeth (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Corporate Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Corporate Committee meeting. The following work is ongoing:

- *Financial statements audit*: at the time of drafting we were finalising our sample testing relating to income, expenditure, debtors and creditors and awaiting review of the final set of financial statements. We expect this work to be completed and can verbally confirm that at the Corporate Committee.
- *Redress scheme:* we utilised KPMG actuarial specialists to undertake a review of the provision established for the redress scheme in the draft accounts. Our review identified a need for a peer review (by a qualified actuary) to be completed of the report in line with actuarial standards. Officers are currently arranging for the peer review to be commissioned and completed, following which KPMG's actuarial specialists will undertake a further review of the valuation of the provision for the redress scheme. This work will allow us to conclude our work on this £100 million balance and identify what uncertainties and elements of estimation we will disclose in our opinion.

  As a result of the further work required to gain assurance over the accuracy of the provision recorded for the redress scheme we anticipate that we will not be able to conclude our audit by the time of the Corporate Committee or for the 31 July deadline. We will continue to work with officers to ensure that our audit can be concluded as soon as is practical after that deadline.

Summary

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Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified opinion on the Authority's financial statements, following the Corporate Committee adopting them and receipt of the management representations letter. We anticipate including an emphasis of matter paragraph within the opinion relating to the creation of the provision for the redress scheme. This unqualified opinion confirms we believe the accounts present a true and fair view, however the emphasis of matter draws the attention of users of the accounts to the Authority's disclosures of the redress scheme given it's materiality, judgemental nature and reliance on estimation.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements for the deadline of 31 July 2018.

We have completed our audit of the financial statements (with the exception of the redress scheme figure). We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are two unadjusted audit differences, which is not material to the financial statements.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- In additional to our routine requests we are asking for management representations over the following, which are explained in section 2:

  - the assumptions used to prepare the valuation of the provision for the redress scheme reflect the expected timing and value of payments that will be made;

  - there is insufficient information available to enable a provision to be recorded for complex cases within the redress scheme; and

  - there would not be a material impact from updating the value of housing stock to values as at 31 March 2018 from the December 2017 valuation prepared.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.

Value for money – see section 3 for further details

Based on the findings of our work, we except to issue a qualified opinion on the Authority's use of resources. We anticipate qualifying our opinion on the following two bases:

- That children's services were rated as inadequate by Ofsted during 2017/18. Although progress had been made in implementing the actions following the last inspection adoption services continued to be rated as inadequate following the January 2018 inspection; and
- Internal control issues identified by internal audit relating to the financial control environment in place at the Authority during the year.

Summary

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Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with Officers;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about. We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014. There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

We identified four prior year recommendations that require further action by Officers. We have made six new recommendations as a result of our 2017/18 work. The key recommendations relate to PPE ownership and recognition of Schools assets, and floor area information for Council assets, and the agreement of recharges from the Authority to the Pension Fund. All recommendations are shown in appendix 1.

We undertake other grants and claims work for the Authority (some of which does not fall under the PSAA arrangements). The status of our grants and claim work is summarised below:

- Assurance over Teachers' Pension Fund end of year certificate – at the time of writing we were awaiting confirmation of the audit requirements for this return. We anticipate completing our review in August 2018 ahead of the November 2018 deadline set by the Teachers' Pension Fund;
- Pooling of housing capital receipts – we anticipate completing our review of this return during August 2018; and
- Housing benefits – we have commenced planning for our review with Officers and will complete our testing during August 2018 ahead of the certificate deadline.

The fees for this work are explained in section two.

We have received two items of correspondence from local electors this year. These related to possible unlawful expenditure, classification of expenditure, disclosures of housing stock, timing of procurement activity and management and accounting for funds from leaseholders. The audit cannot be formally concluded and an audit certificate issued as we are considering elector queries relating to 2015/16 and the two objections received for 2017/18. Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Financial statements audit

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We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage: Before	During	After
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made five recommendations which relate to accounting for balances with the Authority held by the Pension Fund, approval of Pension Fund journals, formalising the basis of recharges from the Authority to the Pension Fund, obtaining declarations of interest for co-opted members of the Pension Fund and access permissions to the general ledger. We believe that these recommendations (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Assistant Director – Corporate Finance, and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails. We have utilised the KPMG Clara KCentral portal to securely share documentation between the Council and the Audit Team.

Financial statements audit

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4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis: We worked with Officers to consider the adjustments required for the Expenditure and Funding Analysis to reconcile from the net cost of services presented on an accounting basis to the funding requirements of the services; and • Changes in the format of the Pension Fund accounts: we confirmed that the additional disclosure of investment management transaction costs had been appropriately included within the notes to the Pension Fund.
5. Accounts Production	We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to year end to proactively address issues as they emerge. We consider that the overall process for the preparation of your financial statements is good. The areas which you need to pay particular attention to are ensuring consistent presentation of transactions within accounting records and accurate mapping of the trial balance to the accounts as we raised a number of adjustments within the Authority and Pension Fund accounts related to classification of transactions. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the financial statements.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Chief Financial Officer on 19 July 2018. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking The Authority to provide specific representations on: • Assumptions used for the valuation of the provision for payments relating to the redress scheme are appropriate and based on the most accurate available information; • There is insufficient information available to enable a valuation to be made for complex payments to be made from the redress scheme; and • The impact of movements in the value of housing stock between the valuation date at 31 December 2017 and the Balance Sheet date is not material to the users of the accounts.

Financial statements audit

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ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with Management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over valuation of land and buildings, pension liabilities and the redress scheme which were identified as significant risks within our audit plan for the Authority and which will form a part of our audit opinion. We have also set out our findings in response to the significant risk relating to valuation of investments within the Pension Fund accounts;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

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Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	Council dwellings and other land and buildings, £3,559M, PY: £3,411M	The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. The valuation commissioned by the Authority covered all operational land and buildings, schools, housing stock and assets held for sale. We were satisfied that the remaining value of those assets not revalued in year was sufficiently low and that the nature of the assets meant there was a sufficiently low risk that their value would be materially misstated. We used a KPMG valuation specialist to assess the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used. No exceptions were noted as a result of this review. We reviewed the appropriateness of the assumptions used in preparing the valuations for each category of asset and verified that they were an appropriate basis for the nature of the asset. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We identified that the revaluation of Your New Town Hall had been recorded within the accounts before accounting for Quarter Four additions to the building, we therefore agreed an adjustment with management to reduce the value by £9.1m. In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. The Authority has valued its housing stock as at 31 December 2017, with an impairment review undertaken at 31 March 2018. We reviewed published indices to consider the impact of valuing the housing stock at the 31 March 2018. We estimated the movement in indices would lead to an increase in value of approximately 0.6%, equivalent to £13.7 million based on the 31 December 2017 valuation. We did not consider this movement material to our audit but have requested an additional representation from the Authority to confirm that the current basis of valuation is considered to give a materially true and fair view at 31 March 2018. As a result of this work we determined that the valuation of the land and buildings as at 31 March 2018 was an appropriate estimate of their fair value at that date. We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 18

Financial statements audit

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SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension assets and liabilities	Pension assets, £1,449M (PY: £1,421M); Pension liabilities: £2,058M (PY: £2,052M)	The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of London Pension Fund Authority, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements. As part of our work we also evaluated the competency, objectivity and independence of Hymans Robertson and Barnett Waddingham as scheme actuaries and did not identify any exceptions. We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Hymans Robertson. In preparing the valuation of the defined benefit liability as at 31 March 2018 the actuary does not account for changes in membership since the last triennial valuation, we confirmed that there had been a 6% increase in membership numbers since the triennial valuation and involved a KPMG actuary to verify that this does not have a material impact on the valuation of the scheme net liability. In addition, we reviewed the overall actuarial valuation and considered the disclosure implications in the financial statements. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets. We then liaised with the actuary to understand how these assets are allocated across participating bodies and re-performed this allocation. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 18.

Financial statements audit

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SIGNIFICANT audit risk	Account balances effected	Summary of findings
Redress scheme	Provisions: £108,689K (PY: £15,465k)	The Authority has established a redress scheme to compensate individuals who suffered historic child abuse or were put in harms way. At the year end a provision has been recognised to cover the anticipated compensation costs. There is complexity around the accounting for the scheme and the level of judgments involved in determining the level of provision required. During 2016-17 the Authority received approved from the Secretary of State to capitalise up to £100m of the costs incurred, however the Authority is required to exercise judgment in determining which costs are able to be capitalised and when they should be recognised. We reviewed the actuarial valuation prepared for the Authority in estimating the value of the liability to be recognised. We assessed the objectivity, experience and expertise of the actuary utilised in preparing the valuation, John Birkenhead, and confirmed they were sufficiently qualified and independent to provide a reliable valuation. We have requested that the Authority commission a peer review of the actuarial report which sets out the potential scheme liabilities. The report has already been subject to challenge by forensic accountants, lawyers and officers to determine the most appropriate assumptions for it to include. Our view is that the underlying actuarial model should also be subject to review by an appropriately qualified professional. Given the materiality of the scheme value and the complexity of the judgments required in determining the value we considered this to be an important source of assurance for the Authority and consistent with actuarial standards. We have agreed with Officers for a peer review to be commissioned and are awaiting receipt of the output from this review. Following completion of this review we will utilise KPMG actuarial specialists to review the key assumptions applied in developing the valuation of the provision and conclude on their appropriateness and whether the disclosure in the financial statements is sufficient. We challenged officers' judgment that no provision should be made for 'complex' cases where further assessment is required as it is not considered possible to reach a reliable valuation of the potential liability. We have requested an additional representation from the Authority relating to not including a provision for these cases. We reviewed the accounting for the provision and the capitalisation of the costs incurred to confirm that they were consistent with the Code of Practice on Local Authority Accounting and additional CIPFA guidance issued in 2015 for accounting for capitalisation orders. We agreed an adjustment with Officers to reflect £57 million of the provision as a current liability as the scheme has commenced making payments during 2017-18 and is anticipated to continue doing so in 2018-19.

Financial statements audit

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Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Non-pay expenditure	Cost of services expenditure: £1,301,324k (PY: £1,203,340k)	We completed sample testing of transactions incurred during the year to verify that they had been accurately recorded within the correct financial period and at the right value. We also confirmed for our sample of expenditure that it had been correctly classified within the net cost of services. We reviewed the allocation of expenditure codes to net cost of services to confirm that expenditure had been correctly accounted for within the correct service lines. We reviewed expenditure incurred within March and April 2018 to assess whether the expenditure had been recorded within the correct financial year based on the time at which the goods and services were provided. No exceptions were noted as a result of the testing performed.
Cash	Cash and cash equivalents: £16,363k (PY: £27,980k)	We reviewed the year end bank reconciliations for the Authority's bank accounts to verify that reconciling items between the statement balances at the end of the year and the year end accounts balances were appropriate and had been correctly recorded. We reviewed a sample of specific items to confirm that they were appropriate. We verified the accuracy of the year end bank statement balances used in reconciling the bank accounts to confirmations provided by the Authority's banks. No exceptions were noted. We confirmed that cash balances and balances held within investments were correctly classified based on how quickly the Authority could access the cash.
Business rates and council tax income	Council tax income: £138,458k (PY: £136,150k); Business rates: £135,904k (PY: £124,047k)	We verified the consistency of the council tax income recorded within the Collection Fund to property records provided by the Valuation Office and the Band D council tax rate as confirmed by the Council. We re-performed the calculation of the business rate charge for a sample of properties. We reviewed the reliefs applied during the year to verify their accuracy, including the £19m transitional relief applied during the year as a result of the revaluation of rateable values as at 1 April 2017. We reviewed the calculation of the provision against NNDR appeals to assess the appropriateness of the provision.

Financial statements audit

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Other areas of audit focus	Account balances effected	Summary of findings
HRA income and repairs and maintenance expenditure	HRA income: £185,741k (PY: £184,691k) HRA repairs and maintenance expenditure: £24,310k (PY: £27,589k)	We reviewed the reconciliation between the housing stock as recorded within the general ledger and the properties recorded on the Northgate system to obtain assurance that the properties that had been billed for during the year represented the actual estate maintained by the Authority. We noted that progress had been made by Officers in reconciling the systems, although variances remain between the two systems that are continuing to be investigated we were satisfied this did not have a material impact on our audit. We developed an expectation of the revenue to be generated through the HRA based on the number of properties held by the Authority and the levels of rent charged to tenants. We completed sample testing of repairs and maintenance incurred during the year to verify that expenditure had been accurately recorded and was accounted for within the correct period. We also reviewed the allocation of costs against expenditure classifications within the HRA account. No exceptions were identified as a result of our testing. We followed up a query raised by a member of the public relating to the disclosure of amendments to the housing stock numbers disclosed within note 36 ‘Housing Stock;. We confirmed that the disclosures made were consistent with the CIPFA Code of Practice and accounting standards.
Housing benefits expenditure	Housing Benefits Expenditure: £234,745k (PY: £252,329k)	We have agreed the amounts posted to the ledger back to Northgate reports and to the Council’s BEN01 submission form and have not identified any issues. We reviewed a sample of parameters established on the housing benefit system and performed an analytical review over the balances being claimed on the BEN01 form to verify there were not significant variances from previous years.
Staff costs	Employee benefits expenses: £336,360k (PY: £351,450k)	We completed sample testing of employee expenses incurred during the year to verify that costs had been accurately recorded within the accounts, including pension and social security contributions. No exceptions were identified as a result of our procedures. We also tested a sample of agency transactions incurred during the year to verify the accuracy of their recording within the accounts, including that they were recorded at the correct value and within the correct accounting period.

Financial statements audit

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Pension Fund significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of hard to price investments	Investment Assets, £1,356M (PY £1,335M)	The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may also be susceptible to pricing variances given the number of assumptions underlying the valuation. In the prior year financial statements, £128 million out of a total of £1,335 million of investments, or 10%, were in this harder to price category. For year ended 31 March 2018, £57 million out of a total of £1,356 million of investments, or 4%, were in this harder to price category As part of our audit of the Pension Fund, we independently verified a selection of investment asset prices to third party information and obtained independent confirmation on asset existence. We also reviewed the extent to which the Pension Fund had challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of the figures. As a result of this work we determined that Officers have relied on the estimates provided by their Fund Managers at 31 March 2018, which we have verified to confirmations received by the Fund Managers. We reviewed service auditor reports for the Fund Managers utilised by the Pension Fund in order to obtain assurance that there was a robust control environment in place for the management and valuation of the Fund’s investment assets and so that we could place reliance on the calculations performed by the Fund Managers. No exceptions were identified as a result of our review.

Financial statements audit

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Authority other areas of audit focus – Pension Fund

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Contributions (Pension Fund)	Contributions: £46,681k (PY: £56,513k)	We verified the accuracy of employer and member contributions for the Authority to payments made through the payroll by the Authority during the year to verify that they had been accurately recorded and that the full value of contributions paid during the year had been recorded. We confirmed the value of deficit recovery payments made during the year to cash received as well as the agreement reached following the most recent triennial valuation.
Benefits payable (Pension Fund)	Benefits: £51,446k (PY: £55,794k)	We verified the accuracy of benefit payments made during the year to cash paid as part of the monthly payrolls processed by the Fund. We confirmed that all payments made during the year had been accurately recorded and that values could be agreed to the payments made. We also reviewed the consistency of the expense recorded with the number of pensioners identified as receiving pension payments and confirmed the accuracy of this figure to supporting records held by the Fund.
Audit fee (Pension Fund)	Audit fee: £21k (PY: £21k)	We agreed with Officers an adjustment to the notes to the draft accounts as the audit fee payable for the Pension Fund had not been accrued at 31 March 2018 and so had not been appropriately disclosed. We verified within the updated draft accounts that it had been accurately recorded within the notes to the accounts on a net basis consistent with the requirements of the ICAEW.

Financial statements audit

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Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2017/18 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.	As set out in our audit plan we have rebutted the risk of fraudulent revenue recognition due to the differing incentives faced by the Authority. There are no matters that we wish to report to you in this area.
Fraud risk from management override of controls	Officers are typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	We have raised a control recommendation within Appendix One relating to the access that is assigned to users on the general ledger to help ensure segregation of duties, which is an important control to help prevent potential fraud from occurring. We reviewed manual journals posted to the ledger during the year based on a series of risk criteria in order to confirm that they had been accurately accounted for, that appropriate approval had been provided to the transaction and that there was sufficient support in place to justify the transaction. We identified two of our sample of Pension Fund journals that had been approved by an Authority manager due to staff with permissions to approve the journal within the Pension Fund not being available and have raised a control recommendation in Appendix One.

Financial statements audit

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Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions (excluding NDR)	TBC	4	£105.5 (PY:£9.0)	A provision of £100m has been recognised during the year relating to the redress scheme that has been established by the Authority. The valuation of the provision does not incorporate complex cases as they are not able to be reliably valued and so there is a risk that the value of payments made over the course of the scheme is higher than the level currently provided for. We understand that the level of claims received in the first two quarters has been in line with expectation, however there remains uncertainty over the total level of claims that may be received and how many will progress as complex claims. We are continuing to review the methodology and assumptions underpinning the provision for the redress scheme and will update our report on completion of this review.
NDR provisions	3	3	£3.2 (PY:£6.5)	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. The provision has been reduced as a high number of claims had been anticipated during 2017-18 as a result of the deadline for making claims. The provision held across the Collection Fund is consistent with historic levels of claims made.

Financial statements audit

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Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
PPE: HRA assets	2	3	£2,228 (PY:£2,169)	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation specialist to provide valuation estimates. We reviewed instructions provided and deem that the valuation exercise is in line with the instructions. The valuation is completed as at December 2017 and a formal review was not undertaken to assess the impact of movements in market conditions to March 2018. The impact of this was estimated by the Authority's valuers as between 0% and 1%. Our review of published indices suggests that property prices increased by approximately 0.6% in the period to March 2018. We are satisfied that this does not lead to the valuation being materially misstated.
PPE: asset lives	3	3	£3,592 (PY:£3,703)	Asset lives were assessed as part of the full revaluation previously undertaken and have been updated within the Authority's accounting records to reflect the assessment of the useful life. A full revaluation was commissioned for 2017-18 across the Authority's land and buildings, including Your New Town Hall, which was revalued upon becoming operational.
Debtors provisioning	2	3	£31.6 (PY:£32.2)	The Council has reviewed sundry debt up to six years overdue and has determined the amounts expected to be collectable. The remaining amounts plus all debts over six years old have been fully provided for within the sundry bad debt provision figure. The sundry bad debt provision has been found to be £1.9m overstated as outlined in Appendix Three.
Pension liability	4	3	£609 (PY:£631)	The Authority continues to use Barnett Waddingham and Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme (LGPS). Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. The actual assumptions adopted by the actuary fell within our expected ranges with the exception of expected life expectancy used in preparing the valuation. We utilised a KPMG actuarial specialist to confirm that this did not have a material impact on the valuation of the scheme liability, however that it is . The actuary does not update the valuation of the net lability to account for changes in membership numbers following the last triennial valuation. There has been a 6% increase in members enrolled in the scheme since the last triennial valuation in March 2016. We utilised a KPMG actuarial specialist to confirm that this did not have a material impact on the valuation of the net liability at 31 March 2018.

Financial statements audit

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Group audit

During the year the Authority has established four subsidiaries to support housing development. The Authority has adopted an accounting policy not to consolidate the subsidiaries within its accounts as at 31 March 2018. We reviewed the value of assets transferred and expenditure incurred by the subsidiaries to confirm that they were not material either individually or in aggregate. We note that this may change as the subsidiaries are used for further activities in future years and so the Authority should keep this accounting policy under review.

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension fund audit

The audit of the pension fund and the Pension Fund Annual Report was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Pension fund annual report

We reviewed the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in London Borough of Lambeth's financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of London Borough of Lambeth. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. We can confirm it is not inconsistent with the financial information contained in the audited financial statements. As such we anticipate issuing an unqualified consistency opinion on the pension fund financial statements.

Queries from local electors

We have received two items of correspondence from local elector. We are satisfied that they do not raise issues which would prevent us from issuing our audit opinions. We will consider them in more detail once our accounts work has been finalised.

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as:

- HM Treasury has recently issued its guidance for completing the WGA and issued the consolidation packs that authorities need to complete. The deadline for the Authority to prepare the consolidation pack is DD July 2018 with an audit deadline of DD October 2018. We aim to complete the work in September 2018.
- There are three open objections from local electors relating to previous financial years that are awaiting finalisation. We anticipate we will have completed this work in before the end of 2018.

Financial statements audit

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Whole of Government Accounts (WGA)

We will complete our review of your WGA consolidation pack ahead of the August 2018 reporting deadline, there are no issues that we wish to bring to your attention following the work completed to date.

Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

- Assurance over Teachers' Pension Fund end of year certificate – at the time of writing we were awaiting confirmation of the audit requirements for this return. We anticipate completing our review in August 2018 ahead of the November 2018 deadline set by the Teachers' Pension Fund;
- Pooling of housing capital receipts – we anticipate completing our review of this return during August 2018; and
- Housing benefits – we have commenced planning for our review with Officers and will complete our testing during August 2018 ahead of the certificate deadline.

Audit fees

Our fee for the audit was £207,841 excluding VAT (£207,841 excluding VAT in 2016/17). This fee was in line with that highlighted in our audit plan approved by the Corporate Committee in March 2018. Our fee for the audit of the pension fund was £21,000 excluding VAT (£21,000 excluding VAT in 2016/17) and was also in line with the approved audit plan.

Our work on the certification of Housing Benefits (BEN01) is planned for August and September 2018. The planned scale fee for this is £35,376 excluding VAT (£31,688 excluding VAT in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £10,000 excluding VAT (£10,000 excluding VAT in 2016/17).

We have not completed any non-audit work at the Authority in year.

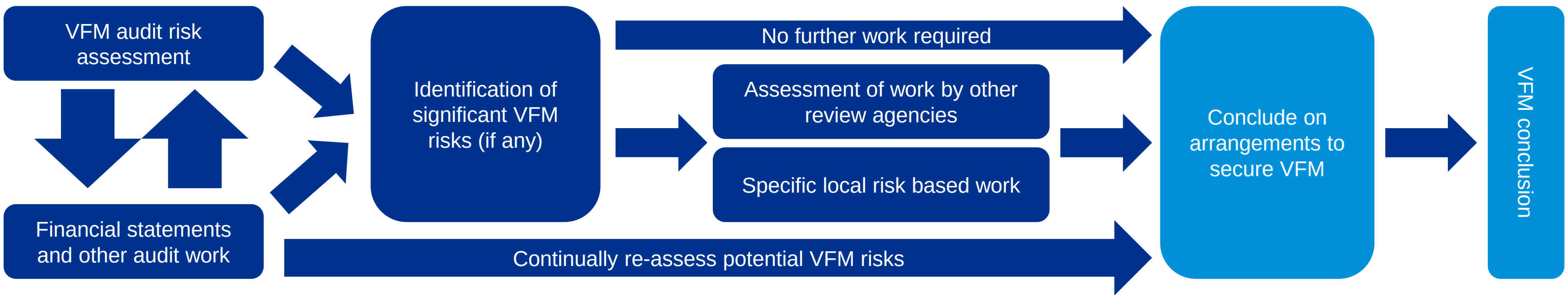
Value for money

DRAFT

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:



We identified three significant VFM risks which are reported overleaf. We anticipate issuing a qualified opinion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources as Children's Services continued to be rated as inadequate until May 2018 when the report into the inspection of services undertaken in January 2018 was published and so we were unable to demonstrate that there were appropriate arrangements in place throughout the year and as a result of the internal financial control issues identified through internal audit reviews undertaken.

Value for money

DRAFT

Significant risk based VFM audit work

Below we set out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Significant VFM risk	Why this risk is significant	Our audit response and findings
Financial sustainability and internal control	The level of savings required in order to achieve a balanced budget cause a risk to the requirement for financial sustainability.	The Authority identified the need to make savings of £17.4 million in 2017/18, of which £8.1m was reported as having been achieved by services during the year. The Authority achieved an underspend of approximately £0.3 million against its General Fund budget but will be required to achieve the savings implemented non-recurrently in 2018/19 as well as requiring further savings as a result of funding pressures to meet the approved balanced budget for 2018/19 and as part of the medium term financial plan to March 2021. Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Authority's MTFP details a balanced budget for 2018/19 including savings of £22.4 million in year, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, with a funding gap identified of £40.7m for the period to March 2021. During 2016-17, the Council's Head of Internal Audit noted improvements to be made in areas such as Contract Management and there were a number of design improvements required to key financial and internal control procedures, marking an improvement since 2015-16. At the time of our 2017-18 audit, whilst the overall control environment is stable, there are still improvements to be made to strengthen procedures, and ensure that key financial controls are undertaken and documented in a timely and appropriate manner.
Securing economy, efficiency and effectiveness in Children's Services.	Services were previously rated as inadequate by Ofsted following their last inspection, causing a risk that resources were not being used effectively.	We have reviewed the reports issued by Ofsted relating to inspections of Children's Services following the inadequate rating previously provided to services as well as reviewing reports issued by internal audit. We note that progress has continued to be made by the services in implementing the action plans required following the Ofsted inspection and subsequent visits. The services were re-inspected during January 2018, although the rating for Children's Services overall was amended to requires improvement adoption services continued to be rated as inadequate following the inspection.

Value for money

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Significant VFM risk	Why this risk is significant	Our audit response and findings
Lambeth Redress Scheme	The Authority is anticipating making payments of c.£100m and so there is a risk that resources are not appropriately deployed if there are insufficient controls to manage scheme expenditure.	We reviewed reports produced by internal audit to assess the controls established for the management of expenditure from the redress programme. These considered that there was an appropriate control framework in place to complete checks to confirm that expenditure being claimed was appropriate. We reviewed the processes for approving and processing payments from the redress scheme. Although initial 'harm's way' payments will be made without completing checks to verify the validity of the claims any higher value claims made as part of the scheme require an assessment to be undertaken in order to verify the extent of the harm caused and so we considered that there were appropriate checks in place to prevent significant payments being made inappropriately. We verified that the Authority had sought appropriate legal advice in considering the most appropriate mechanisms for establishing the payment mechanisms for the redress scheme and were satisfied that the processes established were consistent with the advice that had been received. We reviewed the information provided to Cabinet and Council during the establishment and monitoring of the redress scheme to assess whether there had been informed decision making in establishing the scheme and in continuing to provide oversight to it. We verified that there had been appropriate oversight to the establishment of the scheme and the process through which compensation payments would be made by the Council prior to claims being processed. We considered the processes established for reporting to the Department of Communities and Local Government. During 2017-18 only two payments had been processed from the scheme and therefore it had not been necessary to yet submit any formal reporting to DCLG on the progress against the scheme. We verified that internal monitoring mechanisms had been established in order to monitor the level of claims received and payments made as well as how this compared to the amounts initially expected.

Appendix 1

Recommendations raised and followed up

DRAFT

Recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	2	**Information held on PPE portfolio** During the valuation of the assets by the Authority's external valuers, it was identified that there are a number of building assets for which the Authority was unable to obtain accurate floor area information, which prevented the valuer from undertaking a valuation of those properties. The Authority should undertake a review of the information held about the property portfolio to determine where it does not have full records of the asset details required for valuation, such as measurement details. Where gaps are identified the finance team should complete a programme to verify the required information with the estates department.	**Agreed.** The Finance team will work with the Property Team to identify assets with incomplete information and put in place a programme to update the records. **Responsible Officer:** Hamant Bharadia, Assistant Director of Strategic Finance **Due Date:** December 2018
2	2	**Service level agreement between Authority and Pension Fund** A formal schedule has not been developed to set out how the value of recharges between the Authority and the Pension Fund for administrative support provided are determined. Therefore the Pension Fund is unable to appropriately accrue for costs to be recharged by the Authority when preparing the draft accounts, and the amounts recharged are not supported by an agreement between the two bodies. A formal service level agreement should be developed by the Pension Fund and Authority to set out the scope and value of the amounts to be recharged by the Authority to the Pension Fund. This will allow the Pension Fund to oversee the amounts recharged and make appropriate accruals when preparing the draft accounts.	**Agreed.** Recharges will be agreed early in the year and processed on a quarterly basis with the final quarter recharges posted prior to the financial year-end. **Responsible Officer:** Hamant Bharadia, Assistant Director of Strategic Finance **Due Date:** December 2018

Recommendations raised and followed up

DRAFT

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
3	3	**Ownership of PPE assets** The Council holds a number of school assets on balance sheet, some of which have Foundation School status. The Code of Practice on Local Authority Accounting sets out a series of criteria against which all such arrangements should be formally assessed to ensure that the Council is satisfied that the recognition of the assets is appropriate. Whilst the Council has taken steps to review the legal ownership by obtaining the Land Registry Title Deeds for the properties, a formal assessment should be made of the Schools assets held by the Council to ensure that the relevant procedures have been undertaken in line with the Code and LAAP Bulletin 101, which provides further practical guidance on applying the requirements of the Code.	**Agreed.** The Council will revisit its assessment of schools asset ownership to refresh this during the financial year. **Responsible Officer:** Hamant Bharadia, Assistant Director of Strategic Finance **Due Date:** December 2018
4	3	**Execom to Oracle Reconciliation** Payments for the Community Infrastructure Levy (CIL) are processed through Execom which has an automated interface with Oracle. During 2017-18 there have been identified instances where the interface has not processed all relevant transactions in Oracle, and it has been difficult for Officers to agree the Execom transactions to the Oracle journal transactions at year end. Monthly reconciliations should be undertaken to agree the balances within Execom to those in Oracle, ensuring that the CIL transactions per the ledger can be agreed back to Execom transactions and invoices.	**Agreed.** The reconciliation between Exacom and Oracle has been brought over to Finance and will be undertaken on a monthly basis. **Responsible Officer:** Hamant Bharadia, Assistant Director of Strategic Finance **Due Date:** December 2018
5	3	**Access permissions to Oracle** Staff are assigned access permissions to the Oracle general ledger system based on the requirements to complete their role. This supports the enforcement of segregation of duties by preventing access to elements of the system that are not required. For one of our sample of 15 general ledger users access had been assigned to post journals and raise invoices that was not required for the role they were undertaking. We understand this was a result of higher permissions being assigned historically to cover for leave and not revoked when it was no longer required. Periodic access reviews should be undertaken on a six monthly basis to verify that the permissions assigned to users remain appropriate for the role being undertaken.	**Agreed.** The individual concerned has worked across the AR and AP teams before finally settling in AP, but permissions had not been updated. A review of Oracle permissions will be carried out on a regular basis as part of routine housekeeping. **Responsible Officer:** Nisar Visram, Assistant Director of Corporate Finance **Due Date:** December 2018

Recommendations raised and followed up

DRAFT

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
6	3	**Review of lease agreements and lease register** During our audit, we noted that the information held on the Council's leases schedule does not contain all the relevant information necessary to be able to appropriately determine the value of minimum lease payments within the accounts. As part of the Council's preparation for implementation of IFRS 16, a detailed review should be undertaken into each of the lease arrangements in place with counterparties and a more detailed leases register should be developed to capture all relevant information relating to the agreements.	**Agreed.** With forthcoming accounting changes in this area, a review of leases held by the Council is to be commenced in 2018/19 and data for leases to be reported in the accounts will be reviewed during the financial year. **Responsible Officer:** Nisar Visram, Assistant Director of Corporate Finance **Due Date:** December 2018
7	3	**Improvements to Procedures and Documentation – Pension Fund** During our audit of the Pension Fund, we noted four improvements to strengthen the procedures and reporting:. **1) Documentation of Bank Reconciliations:** During our audit we noted that the bank reconciliations during 2017-18 did not have documentation to evidence the segregation of duties and review by Officers. Going forward all reconciliations should be signed and dated by the individual preparing them, and then subsequently signed and dated by the relevant line manager responsible for reviewing and approving the reconciliation. **2) Debtor and Creditor Balances:** Payments received by the Pension Fund from the Authority are not matched against the debtor balances created when the payments become due within the general ledger and are recorded on separate subjective codes. As a result the Pension Fund ledger showed large outstanding credits and debits that had been netted off within the accounts but could not identify the individual balances that were outstanding. The accounts mapping should be reviewed and adjusted to ensure that when cash payments or receipts are made, these amounts are appropriately mapped to the correct ledger codes and can *Continued overleaf.*	**Agreed.** A review of the processes and accounting arrangements between the Council and the Pension Fund is underway and will address the issues identified during the Audit. This will include bank reconciliations, intercompany transactions and account mappings Additional approval for journals is held within the Council by senior officers to ensure that there is sufficient and timely cover in place. A review of the governance arrangements has identified the declaration of interest and work is underway to address this matter. **Responsible Officer:** Hamant Bharadia, Assistant Director of Strategic Finance **Due Date:** December 2018

Recommendations raised and followed up

DRAFT

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
7	3	appropriately reduce the debtor or creditor position. Additionally, a regular reconciliation should be undertaken of the current outstanding debtor and creditor balances between the Pension Fund and the Authority in order to match transactions and agree the outstanding debtor and creditor balances. **3) Journals:** For two of our sample of 25 journals the approval for the journal was provided by an Authority member of staff rather than pension fund staff member. In a further three instances journals were drafted but there was a significant delay in it being approved and posted. In each of these instances this was due to staff with approval rights in the pension fund not being available when the journal was prepared. Journal approval permissions should be reviewed to ensure that there are appropriate cover arrangements in place for journals to be approved on a timely basis and by staff members with suitable knowledge of the transactions being processed. A review of unposted journals should be undertaken on a monthly basis as part of the ledger close to identify any pending journals that require approval. **4) Declarations of Interest:** Declarations of interest are completed by all councillors, however the Pension Fund also has three co-opted members that are not requested to make an annual declaration of their interests. Although interests are requested at each meeting to help ensure there are no conflicts related party transactions may not be consistently identified. Co-opted members of the Pension Fund should be included within the annual request for interests to be declared and recorded as part of the register of interests.	

Recommendations raised and followed up

DRAFT

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
7	3	4

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	3	**Higher earners' remuneration disclosure** There were errors in the higher earners' remuneration disclosure due to amalgamation of employees with the same name and transcription errors from schools' returns. We recommend that Finance review the returns from schools, and ensure council employees' salaries are banded on unique ID, not employee name.	**Agreed** This will be implemented for 2017/18 closedown.	**Not yet implemented** We identified similar errors during the 2017-18 audit, whereby the note had been prepared on the basis of non-unique names rather than employee ID numbers.
2	3	**Provision for sundry debtors** We identified that debtors older than six years are not written off or provided for, and the likelihood of recoverability improves by 13% between year five and year six. There are also unreconciled items for £2m for which no provision has been made. We recommend that the Authority should review its methodology for its provision for sundry debtors.	**Agreed** The external auditors have confirmed that the overall provision for Sundry Debtors represents a balanced view. Percentages used in calculating this provision will be reviewed for 2017/18 closedown.	**Implemented** The Council has fully provided for all debts over six years within the 2017-18 accounts and has reviewed the collectability of debts under six years old.
3	3	**Approval of new users for Northgate** As part of our controls testing over general IT systems, we found that 66% (10 out of 15) new users reviewed for Northgate did not have supporting evidence showing that they had been approved for access to the system and that this is currently evidenced by email trails. This means that inappropriate users could be given access. We recommend that a starter form, requiring review, is introduced in order to strengthen this control.	**Agreed** Processes for approving new users and the removal of leavers for Northgate will be reviewed to ensure controls and strengthened in this regard.	**Not yet implemented** Tickets are expected to be recorded through the IT Helpdesk, however for 21 out of 25 new users during the year we were unable to verify that appropriate approval had been provided for requests for access.

Recommendations raised and followed up

DRAFT

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
4	3	**Removal of leavers from Northgate** As part of our controls testing over general IT systems, we ensured that leavers were removed from Northgate after not having changed their password for 150 days. We found 2 out of the entire population of leavers whose passwords had not been changed for more than 150 days. One was a member of the system admin group and therefore was not subject to the 150-day rule and the other was subsequently removed but no reason was provided as to why this user had not been removed initially. We recommend that regular checks are carried out and documented, to ensure that leavers are removed from Northgate on a timely basis.	**Agreed** Processes for approving new users and the removal of leavers for Northgate will be reviewed to ensure controls are strengthened in this regard.	**Partially implemented** Line managers are required to notify the systems administration team when staff are leaving the Authority. Checks are completed of passwords not amended for 150 days, though checks have not been implemented to consider system administrators.
5	3	**AP to GL reconciliation** We found that AP to GL reconciliations are being carried out but are not signed off or dated as prepared and reviewed. Errors may therefore go unidentified. We recommend that the AP to GL reconciliations are signed and dated as prepared and reviewed.	**Agreed** AP to GL reconciliations will be signed off in future.	**Implemented** Monthly AP to GL reconciliations are being performed and stored centrally with evidence of timely preparation and review.
6	3	**Faster close preparations** In preparation for the mandatory faster close timetable for 2017/18 onwards, Finance could benefit from ensuring that the accounts timetable has sufficient time set aside for preparing and quality assuring its draft accounts and supporting working papers. This should help to ensure that the tighter deadlines are met next year. A detailed 2016/17 debrief should take place internally to identify lessons leant and potential efficiencies for next year’s process, which we would be happy to take part in.	**Agreed** Debrief and planning session have been arranged across Finance in October/November and a firm plan is being developed to meet the earlier closedown deadlines.	**Implemented** A debrief was held to consider the requirements for faster close. Draft accounts were prepared and submitted by the end of May as required by the faster close timetable.

Recommendations raised and followed up

DRAFT

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
7	3	**Northgate / FAR reconciliation** Following a reconciliation of the Fixed Asset Register and Northgate, we noted a number of properties (£3,271k) on the fixed asset register but not on the housing system. We recommend the Council reconcile this variance and understand why this discrepancy exists.	**Agreed** Officers will investigate this variance before KPMG's 17/18 interim audit.	**Partially implemented** During the 2017-18 audit, the Council have undertaken a reconciliation between the FAR and Northgate relating to HRA properties, however we note that this is not yet fully reconciled and work is ongoing to understand the differences.

Materiality and reporting of audit differences

DRAFT

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in March 2018.

Materiality for the Authority's accounts was set at £16 million which equates to around 1.15% of gross expenditure.

Materiality for the Pension Fund was set at £24 million which equates to around 1.77% of gross assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Corporate Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.75 million for the Authority and less than £1.3 million for the Pension Fund.

Where Officers have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Committee to assist it in fulfilling its governance responsibilities.

Audit differences

DRAFT

Adjusted audit differences: Authority

To assist the Corporate Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1				Dr long term provisions £57,000 Cr short term provisions £57,000		The provision for the redress scheme had initially been classified as a long term provision, however it is anticipated that payments will be made during 2018-19. We agreed with Officers to apportion the provision over the remaining expected life of the scheme.
2				Dr long term borrowings £6,411 Cr short term borrowings £6,411		A loan from the Public Works Loans Board due for repayment in October 2018 had been classified as a long term liability. We agreed with Officers to reclassify this to short term.
3	Dr Impairments £9,077		Cr property, plant and equipment £9,077			The valuation of Your New Town Hall upon becoming operational had not been accurately accounted for within the initial draft accounts.
	Dr 9,077	**-**	**Cr 9,077**	**-**	**-**	**Total impact of corrected audit differences**

Audit differences

DRAFT

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Corporate Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Corporate Committee we report details of all adjustments greater than £0.75 million for the Authority and £1.3 million for the Pension Fund. There are no unadjusted audit differences we are required to report for the Pension Fund. Authority unadjusted audit differences have been summarised below:

Authority unadjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Cr Bad Debt Provision Expense £1,900		Dr Sundry Bad Debt Provision £1,900			The sundry bad debt provision for the authority includes £1.9m relating to the total value of debts aged over 6 years which has been included in the provision twice. The Authority intends to adjust for this in 2018/19.

Presentational adjustments – Authority

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a number of adjustments of a more significant nature and details of these are provided in the following table.

Presentational adjustments – Authority	
#	Basis of audit difference
1	The income recorded within the Collection Fund was overstated by £988k due to an adjustment for designated areas not having been included within the Collection Fund figures. We therefore raised an adjustment for the Collection Fund account, however the impact on the Authority's share of the Fund is below our reporting threshold and so we have not required the Authority to make an adjustment to its Comprehensive Income and Expenditure Statement.
2	We identified an exit package that had been paid during the year to a Senior Officer that had not been included within the initial draft of the financial statements. There were a number of other adjustments to the exit packages disclosure note.
3	The audit fee note in the initial draft of the accounts did not include non-audit services provided relating to Pooling of Housing Capital Receipts and Teachers' Pension Fund certifications.
4	The Remuneration of Higher Earners note had been prepared on an incorrect basis resulting in accuracies in the note per the draft financial statements.

Audit differences

DRAFT

Authority Identified Adjustments

During the audit, KPMG were notified of a number of adjustments identified by the Authority following the preparation of the draft financial statements as follows:

- Exit Packages: The total cost of exit packages per the note in the draft financial statements had not been fully updated to reflect the cost of exit packages for schools (Adjusted).
- The remuneration of one of the Senior Officers had been incorrectly presented per the draft accounts, having excluded payments held under a different ledger code (Adjusted).
- Business Rates (Collection Fund): The movement in Bad Debt presented within the draft Collection Fund note is overstated by £633k and should be £1,091k (Adjusted).
- Capital Grants Received in Advance: £2,932k of Capital Grants Received in Advance have been incorrectly classified as Long Term rather than short term. (Adjusted),
- Deferred Capital Receipts Reserve: £20,238k of the balance, relating to the sale of proeprty has not been transferred to the Capital Receipts Reserve (Adjusted).

Adjustments identified but not processed by the Authority

Schools Year End Balances - the draft financial statements were consciously prepared based on the schools' position at the end of February 2018 rather than March 2018 as a result of timing issues following the accelerated statutory reporting deadlines. If March 2018 balances had been utilised in reporting then the total impact would be to reduce the net surplus by £1.4m and reduce debtors by £3.4m, cash by £6.4m and creditors by £7.9m. We note that management had reviewed the movement and determined that it was not material and included disclosure of this as part of the critical judgments and assumptions set out in note 2a to the accounts. We confirmed that the movement in the balance was not material to our audit.

Audit differences

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Adjusted audit differences - Pension Fund

To assist the Corporate Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Pension Fund adjusted audit differences (£'000)				
#	**Fund Account**	**Assets**	**Liabilities**	**Comments**
1		Dr Current Assets £2,189 Cr Cash Deposits £2,189		£2.189m of cash held by the Fund's Custodian had been incorrectly classified as Cash Deposits rather than Cash and Cash Equivalents.
	-	-	-	**Total impact of corrected audit differences**

Presentational adjustments – Pension Fund

We identified presentational adjustments required to ensure that Pension Fund's financial statements for the year ending 31 March 2018 are fully compliant with the Code. The following table sets out those presentation adjustments relating to the Pension Fund's financial statements that are considered to be significant.

Presentational adjustments – Pension Fund	
#	**Basis of audit difference**
1	The membership information per the draft accounts was not included based on the latest information available and had not been updated within the version presented for review.
2	The fee for the audit of the Pension Fund accounts had been omitted from the initial draft of the accounts provided for review.
3	We agreed adjustments to the reported value of the actuarial present value of the promised retirement benefits to ensure the disclosure was consistent with the figures provided by the scheme actuaries.
4	We noted an additional interest that was required to be disclosed as part of the related parties note relating to a co-opted member that had not been included within the first draft of the accounts.
5	We identified one related party relationship which had not been disclosed relating to members of the Pension Committee.
6	There were a series of adjustments to be made to the notes analysing the Investments including the Reconciliations of Movements in Investments and Fair Value Measurements within Level 3, Sensitivity Analyses, IAS19 Disclosures, and Financial Instruments.

Audit independence

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ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LONDON BOROUGH OF LAMBETH and LAMBETH PENSION FUND

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Audit independence

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Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix [7], as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	207,841	207,841
Audit of the Pension Fund	21,000	21,000
Total audit services	**228,841**	**228,841**
Audit related assurance services	10,000	10,000
Mandatory assurance services	35,376	31,688
Total Non Audit Services	**45,376**	**41,688**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.2:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Appendix 4

Audit independence

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Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	11,000	11,000
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	35,376	31,688

Contingent fees

We have not agreed any contingent fees with the Authority.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Corporate Committee.

Audit independence

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Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Corporate Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 5

Audit quality framework

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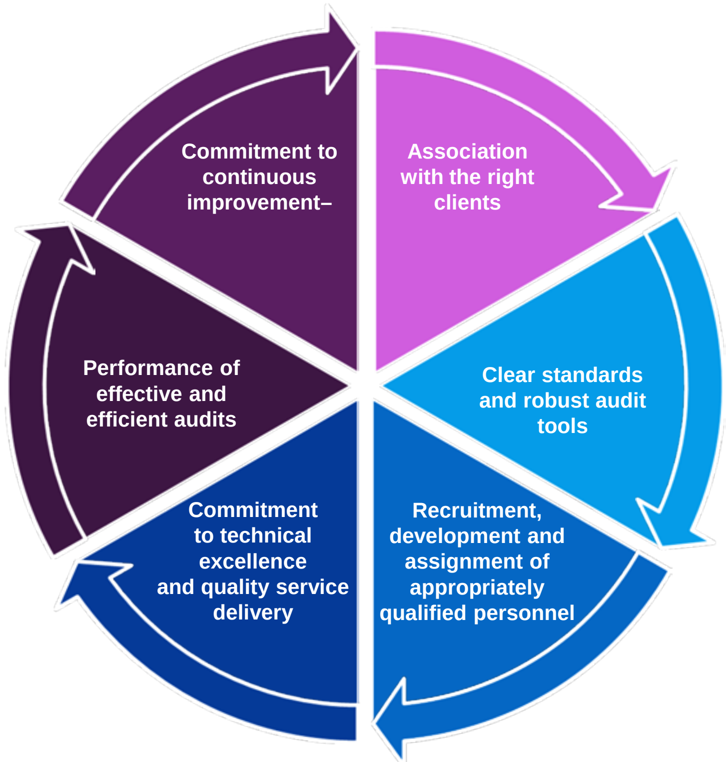
Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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