



# Annual Audit Letter 2017/18

**London Borough of Lambeth**

—

December 2018

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The contacts at KPMG in connection with this report are:

**Neil Thomas**  
Partner  
KPMG LLP (UK)

Tel: + 44 20 1311 1379  
neil.thomas@kpmg.co.uk

**Alexandra Barrington**  
Manager  
KPMG LLP (UK)

Tel: + 44 7468 768 909  
Alexandra.barrington@kpmg.co.uk

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This report is addressed to 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. Public Sector Audit Appointments 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 Public Sector Audit Appointment's website ([www.psa.co.uk](http://www.psa.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 ([andrew.sayers@kpmg.co.uk](mailto: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](mailto: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 3HZ.



This Annual Audit Letter summarises the outcome from our audit work at London Borough of Lambeth in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

## Audit opinion

We issued an unqualified opinion on the Authority's financial statements on 6 November 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements include those of the pension fund.

We have included an emphasis of matter paragraph within our opinion for the Authority. This relates to the redress scheme that has been set up during the year relating to historic child abuse within Lambeth children's homes. Our emphasis of matter clarifies that there is significant uncertainty as to the final value of payments that will be required to be made through the scheme due to the uncertainty in the number and value of payments that will be made to claimants.

## Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's accounts was set at £16 million which equates to around 1.33% percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £24 million which is approximately 1.8% percent of gross assets.

We report to the Corporate Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.75 million for the Authority and £1.3 million for the Pension Fund.

We identified one audit adjustment that was not updated by management, which would have increased the reported surplus on provision of services by £1.9 million if corrected. This related to the calculation of the sundry bad debt provision. We also agreed an adjustment of £9.1 million with management relating to accounting for the valuation of Your New Town Hall, which was updated in the final accounts. We raised two other adjustments which were updated by management and had no impact on the net surplus on provision of services.

Our audit work was designed to specifically address the following significant risks:

- Valuation of land and buildings – The Authority has land and buildings with a value of £3.6 billion. Assets are required to be recorded at fair value. In valuing the housing stock of the Authority valuations are updated each year based on valuing a sample of properties. Valuations are completed as at 31 December 2018. We verified that appropriate properties were selected in preparing the valuation and that there were not material changes in the value of properties between the valuation date and 31 March 2019. We also reviewed the valuation of Your New Town Hall following its completion during the year. We agreed an adjustment to the draft accounts relating to the valuation of Your New Town Hall of £9 million to ensure that the valuation had been accurately accounted for;

## Section one

# Headlines

<b>Financial statements audit</b>	<ul style="list-style-type: none"><li>— Pension assets and liabilities – we reviewed the assumptions utilised in preparing the estimate of the value of future payments required to be made to employees enrolled in the Local Government Pension Scheme and verified that these were within our expected range. We also verified that pension assets had been appropriately valued and the Authority’s share of the assets appropriately apportioned.</li><li>— Redress scheme – the Authority has included a provision within its accounts for payments to be made to victims of historic child abuse under its redress scheme. We identified a significant risk in valuing the payments that will be made as part of the scheme due to the complexity and uncertainty in estimating the number of claims that will be made and the value of payments that will be made. We used actuarial specialists to review the calculations performed in valuing the provision and confirmed that an appropriate methodology was used and assumptions were within an acceptable range. However, due to the potential range of outcomes of the payments made from the scheme we have included an emphasis of matter to recognise the uncertainty within this balance.</li><li>— Management Override of Controls – management are in a unique position to manipulate the Authority’s reporting given their position of influence. We reviewed instances where manual transactions had been processed and the controls in place to verify that only appropriate manual adjustments were made. We did not identify any exceptions from our testing.</li></ul>
<b>Other information accompanying the financial statements</b>	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p>
<b>Pension Fund audit</b>	<p>There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report.</p> <p>Our audit work was designed to specifically address the following significant risk relating to the Pension Fund: Valuation of hard to price investments – the Fund had £57 million of investments that are more complex and therefore harder to value. We obtained confirmations of the values used for the investments from funds and reviewed the assumptions made in setting the valuation of the hard to value investments to confirm that they were appropriate.</p>
<b>Whole of Government Accounts</b>	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority’s pack was consistent with the audited financial statements.</p>

<p><b>Value for Money conclusion</b></p>	<p>We issued a qualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2017-18 on 6 November 2018. This means we are generally satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources, except for in the provision of its children’s services which were rated as inadequate by Ofsted throughout the year and as a result of the need to strengthen the financial control environment to ensure controls are documented and performed in a timely and appropriate manner.</p> <p>To arrive at our conclusion we looked at the Authority’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
<p><b>Value for Money risk areas</b></p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> <li>— Financial sustainability and internal control – the Authority recorded a shortfall in its recurrent savings target during the year of £9.3 million, which was instead found non-recurrently and so will need to be achieved in 2018-19. A number of areas for improvement in financial control were identified by the Authority’s internal auditors in previous years that have not yet been fully implemented;</li> <li>— Children’s Services – Children’s Services delivered by the Authority were rated as inadequate by Ofsted in previous years. We assessed the progress made in implementing the action plan agreed following the inspection. A follow up inspection was undertaken by Ofsted in January 2018, however as the services had remained rated as inadequate at March 2018 we considered that there were not sufficient controls in place to ensure value for money was delivered by the services.</li> <li>— Redress Scheme – we considered the risk that there were insufficient controls established for the management of claims received under the Redress Scheme to verify that payments made were appropriate. We reviewed the processes for monitoring the level of claims being made and reporting to the Department of Communities and Local Government (DCLG) as well as those for undertaking assessment of claims. We considered that there was an appropriate control system to review claims for higher values and quarterly monitoring of the actual level of claims including reporting to DCLG.</li> </ul>
<p><b>High priority recommendations</b></p>	<p>We raised no high priority recommendations as a result of our 2017-18 work.</p>

## Section one

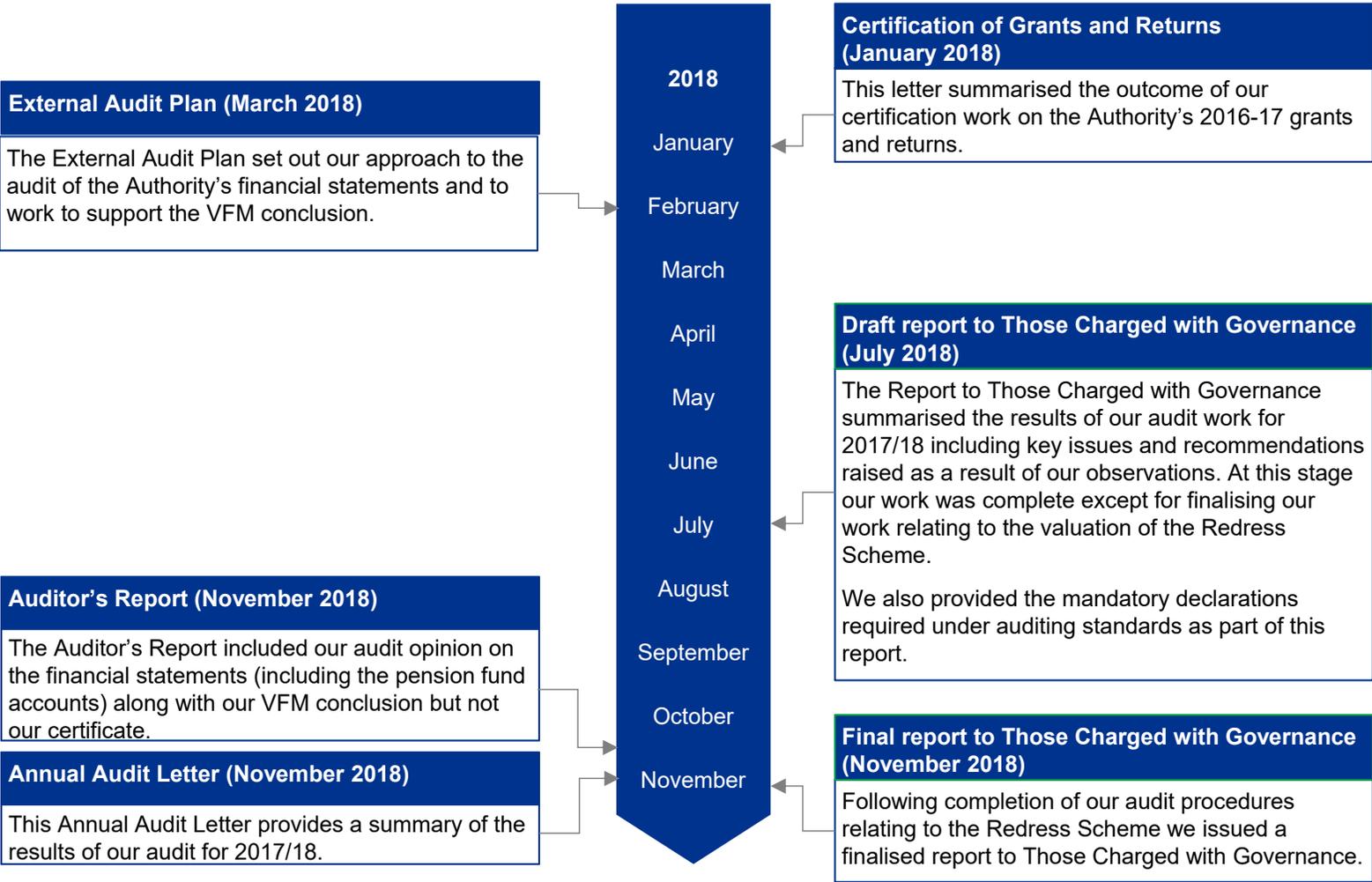
# Headlines

<b>Audit fee</b>	Our fee proposed for 2017-18 was £207,841, excluding VAT (2016/17: £207,841). Our fee for the audit of the Pension Fund was £21,000, excluding VAT (2016/17: £21,000). Our fee was as agreed with the Authority for the year as part of our audit plan. Further detail is contained in Appendix 2. Our fees are not yet finalised with the Authority as we've outstanding objection work to complete and have yet to review the costs of the additional work undertaken on the redress scheme as part of the audit in 2017/18.
<b>Exercising of audit powers</b>	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.

# Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Corporate Committee pages on the Authority's website at [www.lambeth.gov.uk](http://www.lambeth.gov.uk).



# Appendix 2: Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2017/18 planned audit fee.

### External audit

Our proposed fee for the 2017/18 audit of the Authority was £207,841. Our final fee is likely to vary from this due to:

- an increased fee for the audit of the financial statements reflecting additional costs incurred in carrying out the final accounts audit procedures relating to the Redress Scheme and the need for additional review by specialist actuaries.
- additional work, which was not allowed for in our initial plan, namely the consideration of potential objections received from local electors..

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £21,000.

Our fees are still subject to final determination by Public Sector Audit Appointments.

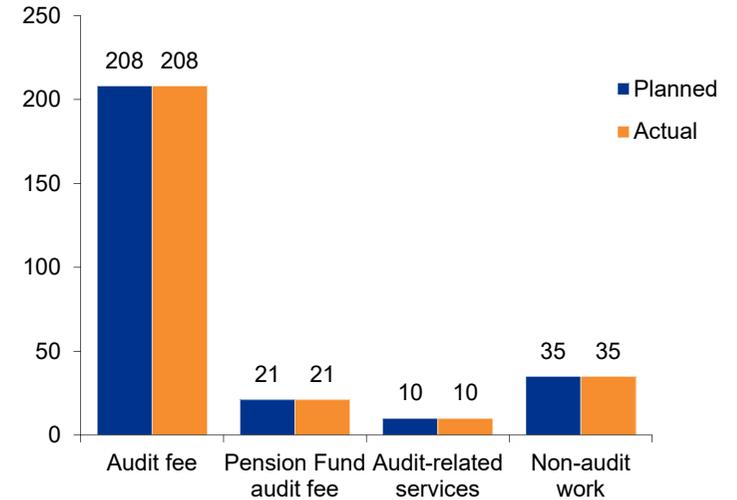
### Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority’s housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2019.

### Other services

We charged £10,000 for additional audit-related services for the certification of the return to the Teachers Pension Fund and the Pooling of Housing Capital Receipts return, which are outside of Public Sector Audit Appointment’s certification regime.

External audit fees 2017/18 (£'000)





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