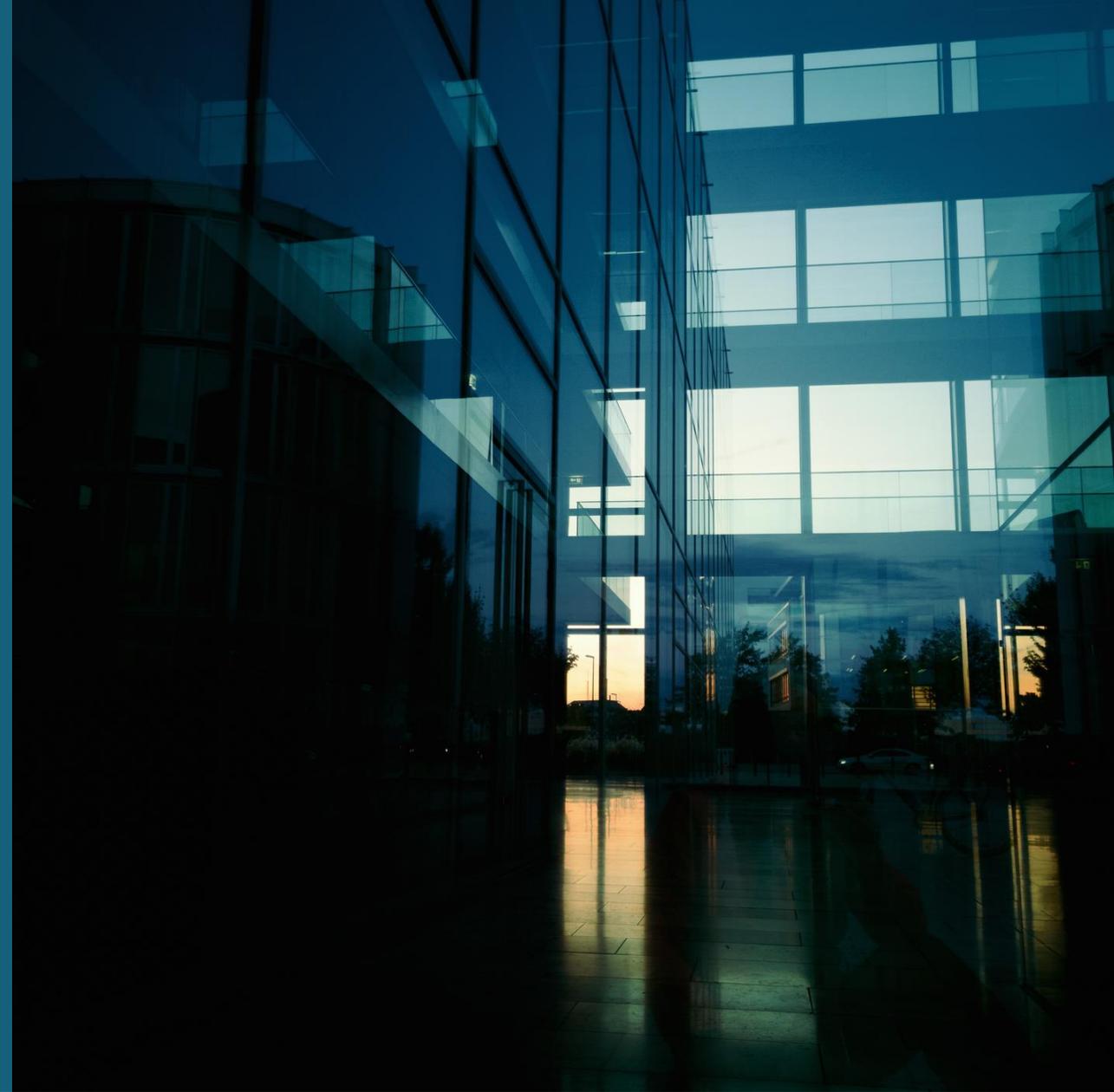


Audit Completion Report

London Borough of Lambeth
Year ended 31 March 2021

22 November 2021



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Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

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Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions. At the date of this report our audit remains in progress and we anticipate completion of audit testing by the end of November and will aim to issue the audit opinion soon after the 2 December Committee meeting.

We anticipate issuing an unqualified audit opinion on the statement of accounts. The audit opinion will include an emphasis of matter paragraph in respect of the Council's disclosure of a material valuation uncertainty on aspects of its property assets. This is the same as 2019/20 and is not a modification to the audit opinion.

Our work on the VFM arrangements will not be completed by the time we issue the audit opinion but as we have identified no risks of significant weakness we currently have no matters to report. We aim to complete our VFM work by the end of the calendar year and include a VFM commentary in the Auditor's Annual Report which we will issue by the end of January.

At the date of this report there remain 3 open objections relating to 2018/19. There are no objections outstanding for 2019/20 and we have not received any objections for 2020/21. However, until we close the 2018/19 objections we cannot certify completion of any of the 3 financial years.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 20 May. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07977 261873.

Yours faithfully



Suresh Patel
Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Valuation of property, plant and equipment;
- Net defined benefit liability valuation;
- Grant accounting; and
- Management override of controls.

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements and unadjusted misstatements. Section 7 outlines our work on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

Status and audit opinion

At the time of preparing this report, significant matters remaining outstanding are outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. We will include an emphasis of matter paragraph in relating to the material valuation uncertainty disclosed in the Council's final accounts. We include our proposed draft audit opinion in Appendix B.



Value for Money (VFM)

We have yet to complete our work on VFM but we anticipate having no significant weaknesses in arrangements to report in relation to the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our Value for Money work is provided in section 7 of this report.



Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Authority's WGA submission. We are unable to commence our work in this area until such instructions have been received.



Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. No such correspondence from electors has been received. However, there are 3 objections from 2018/19 that remain open.



02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete, however at the date of this report there remain audit testing in progress, audit testing that is subject to internal review and we need to complete our review processes which include the Engagement Lead and Engagement Quality Control Reviewer (EQCR) completing their respective reviews of audit work.

Audit testing complete but subject to internal review

• IAS 19 pensions	• Unusable reserves	• Contingencies	• Consolidated accounts
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Audit testing in progress

The majority of the audit testing in progress relates to where we are reviewing and confirming the evidence from the Council to support sampled items we have selected.

• Movement in reserves statement	• Payroll	• Property, plant and equipment valuations	• Debtors
• Creditors	• Financial instruments		

We will update the Committee on the status of the audit.

In addition to the above, as expected, at the date of this report we have yet to complete our concluding audit procedures, the Engagement Lead and EQCR input and our final review procedures. We aim to do so shortly after the 2 December Committee meeting.

We summarise the status of the audit overleaf.



2. Status of the audit

Summary

Audit area	Mazars Status	Description of the outstanding matters
Property, plant and equipment valuation testing		Our work on land and building valuations, in particular review of the information being provided by the Council’s external valuer, and the impact of valuation not completed on a 5 year cycle, is in progress.
Revenue grants, Payroll, Debtors and Creditors		We are awaiting final pieces of supporting evidence from management (invoices, payslips, etc.) for the remaining individual samples selected for testing in respect of our revenue grants, payroll, debtor and creditor samples.
Events after the reporting period		Review of events after the reporting period, up to the point at which we sign our audit report
Final review procedures		We are currently completing our file review. We cannot complete our closure procedures until all outstanding points are resolved and the revised accounts are received.
File closure procedures		Following completion of review procedures, we need to complete file closedown procedures, including receipt of management’s letter of representation and complete our consideration of post balance sheet events to the date of final sign-off.
Whole of Government Accounts (WGA)		Our work on the WGA return will take place later in the year

Mazars assessment of impact

-  Likely to result in material adjustment or significant change to disclosures within the financial statements.
-  Potential to result in material adjustment or significant change to disclosures within the financial statements.
-  Not considered likely to result in material adjustment or change to disclosures within the financial statements.



03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum date 25 March 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality for the Council at the planning stage of the audit was set at £17.8m using a benchmark of 1.5% of gross revenue expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors, is £18.4m using the same benchmark. We set performance materiality at 70% of overall materiality, with the final value of £12.8m.

Reliance on internal audit

We have not placed any reliance on the work performed by the Authority's internal audit function. We have reviewed the functions work programme for the year and used this to inform and confirm our own risk assessment.

Use of experts

We have made use of two auditors' experts during our work. Details of the work provided are as follows:

- PwC: The NAO have appointed PwC to review the qualifications, resources, objectivity and approach of each of the actuaries involved in the production of IAS19 figures for Local Government Pension Schemes (LGPS). The assessment also looks at the approach taken by each actuary and considers the main assumptions used by each in order to value the schemes underlying assets and liabilities. We rely on the

work of PwC to identify any further procedures that may be required with respect to defined benefit pension liabilities.

- Gerald Eve: The NAO appoint Gerald Eve to help inform auditors consideration of the movements in the values of property. Their valuation trends report provides an analysis of movements on certain valuation indices relevant to the consideration of different classification of land and buildings. We use the work of this expert to inform our expectations when auditing property valuations.

Service organisations

We have not made use of any service organisations.

Group audit approach

The Council has four subsidiary companies:

- HFL Group Limited
- HFL Build Limited
- HFL Living Limited
- HFL Homes Limited.

We obtained the necessary assurances on each component by carrying out analytical review procedures of the consolidation balances, together with audit of associated consolidation adjustment journals.

We have no matters to report.



04

Section 04: **Significant findings**

4. Significant findings

In this section we outline the significant findings from our audit, including:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	Description of the risk
	Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk <ul style="list-style-type: none">• Testing accounting estimates impacting amounts included in the financial statements;• Considering any identified significant transactions outside the normal course of business; and• Testing a sample of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.
	Audit conclusion <p>We have no significant findings to report as a result of our work on areas subject to potential management override of controls.</p>



4. Significant findings

Property, plant and equipment valuation	Description of the risk
	<p>The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value.</p> <p>In respect of Council Dwellings, these are reviewed using a beacon valuation methodology, which values Council stock by grouping assets into type and using a nominated beacon asset for each group. The assessed value is uplifted based on an open market assessment then amended for an adjustment factor provided by MHCLG.</p> <p>Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.</p>
	<p>How we addressed this risk</p> <p>We addressed this risk by reviewing the approach adopted by the Council to assess the risk that assets not subject to valuation at year end are not materially misstated, and considered the robustness of that approach. We will also assessed the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially. In addition, for those assets which have been revalued during the year we will:</p> <ul style="list-style-type: none"> • assess the valuer’s qualifications; • assess the valuer’s objectivity and independence; • review the methodology used; and • perform testing of the associated underlying data and assumptions. <p>We have also followed up on recommendations made during the 2019/20 audit regarding PPE valuations.</p>

Property, plant and equipment valuation	Audit conclusion
	<p>Our work to date on revaluations is in progress. We are continuing to liaise with the Council and its external valuer and are awaiting some further evidence to support individual valuations. We will provide an update to the Corporate Committee at the meeting.</p> <p>The Council’s external valuer has included, for some specific groups of assets, a material valuation uncertainty paragraph within their valuation report. The Council has included a disclosure of the material valuation uncertainty in note 2a to the financial statements. We have suggested that the wording needs to be more specific, which management have agreed to update.</p> <p>In our view, this matter is fundamental to the users’ understanding of the financial statements and as such we intend to include an ‘Emphasis of Matter’ paragraph in respect of this disclosure within our auditors report set out in Appendix B.</p> <p>Audit review of the valuations has identified £3.836m of assets that have not been revalued within 5 years, as required by the Council’s accounting policy and the CIPFA Code. The majority (£3.305m) relates to car-parking spaces on housing estates. The Council is currently working to understand the position on these and the potential impact on the overall valuation.</p> <p>Audit review of valuations has also identified, as in 2019/20, an error in the assessment of a number of valuations and the treatment of associated additions in the final quarter of the financial year on those assets. We have included £1.215m as an unadjusted misstatement.</p>



4. Significant findings

Net defined benefit pension scheme liability valuation	Description of the management judgement
	<p>The latest triennial valuation of the Lambeth Pension Fund was completed as at 31 March 2019. As an admitted body within each fund, the valuation also provides the basis of the associated net pension liability for the Council as at 31 March 2021.</p> <p>The valuation of the Council's net liabilities includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data.</p> <p>Due to the high degree of estimation uncertainty associated with the valuations, we have determined there is a significant risk in this area.</p>
	<p>How our audit addressed this area of management judgement</p>
	<p>As the Council is the Fund administrator, we have addressed this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary, Hymans Robertson.</p> <p>We have also:</p> <ul style="list-style-type: none"> assessed the skill, competence and experience of the Fund's actuary; challenged the reasonableness of the assumptions used by the actuary as part of the annual IAS 19 valuation; carried out a range of substantive procedures on relevant information and cash flows used by the actuary as part of the annual IAS 19 valuation.

Net defined benefit pension scheme liability valuation	Audit conclusion
	<p>There have been no significant findings arising from our audit procedures to review the defined benefit pension scheme liability valuation. We are satisfied the balances and associated disclosures are materially accurate.</p> <p>We anticipate that the London Borough of Lambeth's Pension Fund's draft financial statements will be updated to include disclosures regarding material valuation uncertainty in respect of some of the level 3 investments in pooled property funds. As a result the Council should include a similar disclosure of material valuation uncertainty of its share of the pension fund assets in note 2a to the financial statements.</p>
	<p>We have reviewed the confirmation provided by the auditor of the London Pension Fund Authority and note they have drawn attention to issues within the valuation of certain of the Pension Fund assets. Material valuation uncertainty paragraphs have been included within some valuation reports. As above the Council should include a similar disclosure of material valuation uncertainty of its share of the pension fund assets in note 2a to the financial statements.</p>
	<p>In our view, these matters are fundamental to the users' understanding of the financial statements and as such we intend to include an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report set out in Appendix B. This is not a modification of opinion.</p>

4. Significant findings

Other key areas of management judgement and enhanced risks

Group accounts	Description of the management judgement
	<p>As a result of increases in the volume and value of transactions occurring within the Councils wholly owned subsidiary companies, the Council will for the first time be including group accounts within its financial statements.</p> <p>These group financial statements and associated disclosure notes will consolidate and report the results of the Council and its subsidiary entities.</p>
	<p>How our audit addressed this area of management judgement</p> <p>We will discuss the Council's plans for preparing the group financial statements, and the proposals for the details and associated supporting disclosure notes to be included.</p> <p>We will ensure timetables for information are appropriate to allow for both the preparation and audit of the group statements in advance of the proposed date for signing the opinion on the Councils full financial statements.</p>
	<p>Audit conclusion</p> <p>Our work in this area is subject to internal review but to date there are no significant findings arising from our review of the consolidation process and disclosures within the financial statements.</p>

Grant accounting	Description of the management judgement
	<p>As a result of the impact of the pandemic on the financial demands on the council, in terms of reduced income and increased and new expenditure patterns and the overall impact on the financial position of the council, there has been a provision of material revenue grant funding by Central Government.</p> <p>The funding has been through a number of separate grants and in respect of different areas of lost income or increased expenditure, with some of the grants having specific conditions for use or being directed as funding for specific items of expenditure. As a result individual grants will, under the requirements of the CIPFA code, have different accounting requirements and as such each will require separate analysis to ensure the accounting treatment is appropriate.</p>
	<p>How our audit addressed this area of management judgement</p> <p>We discussed the Council's approach to considering the terms and conditions associated with each of the grants received, and the proposals for accounting, ensuring these accounting proposals were in line with the requirements set out in the CIPFA code.</p>
	<p>Audit conclusion</p> <p>Our work in this area is in progress but to date there have been no significant findings arising from our audit procedures to review grant accounting. We will update the Committee on 2 December.</p>



4. Significant findings

Redress scheme	Description of the management judgement
	<p>In response to historic abuse cases at council run children's homes and a school, the Council has set up a redress scheme for affected individuals to provide some level of recompense. The scheme was initially open for applications for a period of two years, ended in January 2020, with individual claims subject to review and challenge prior to any payment being made.</p> <p>In view of the IICSA review being completed during 2020, the council has decided that the scheme will remain open to new claims for a period beyond the initial planned period.</p> <p>The Council has received government approval to capitalise the associated costs of the scheme as they are incurred, up to a total value of £125m. The council continuously monitors the scheme and obtains an independent actuarial assessment of the likely remaining costs from the scheme..</p>
	<p>How our audit addressed this area of management judgement</p> <p>We reviewed the current position on the scheme, in particular the level of payments that have been made over the year, along with the assessed value of possible future payments, as derived from the claims received to date and consideration of the potential additional claims that may be received.</p> <p>We considered the need for additional third party assessment of the forecast future costs to support our review of the calculations performed.</p>
	<p>Audit conclusion</p> <p>We have reviewed the Council's expenditure and analysis in respect of the redress costs and associated provision within the financial statements. We are satisfied the balances and associated disclosures are materially accurate.</p>

Thames Water provision	Description of the management judgement
	<p>The Council, along with a number of other authorities, entered into agency agreements to collect water rates on behalf of Thames Water, with discounts to cover the council's cost of collection.</p> <p>In response to the case of Ross -v- R B of Kingston Upon Thames, where it was determined that discounts should have been passed to the consumer, the Council has created a provision of £21.9m to repay sums to current and former tenants.</p>
	<p>How our audit addressed this area of management judgement</p> <p>We reviewed the current position on the case, in particular the level of potential liability that the Council had assessed as payable in respect of the payments that have been received.</p>
	<p>Audit conclusion</p> <p>We have reviewed the Council's expenditure and analysis in respect of the Thames Water provision within the financial statements. We are satisfied the balances and associated disclosures are materially accurate.</p>

4. Significant findings

Qualitative aspects of the Authority's accounting practices

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

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

Significant matters discussed with management

We have discussed the following significant matters with management:

- The impact of covid-19 on the council and the associated impacts this may have on the risks of material misstatement to the valuation of property, plant and equipment, the assessed provision for expected credit losses and the potential overall impact on the council's financial position.
- Going concern and the basis of management's assessment of its current position. We have reviewed management's initial assessment and considered this against budget forecasts and cabinet finance papers to support the judgement.

Significant difficulties during the audit

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

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

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

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

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

At the date of this report there remain 3 open objections relating to 2018/19. There are no objections outstanding for 2019/20 and we have not received any objections for 2020/21. However, until we close the 2018/19 objections we cannot certify completion of any of the 3 financial years.

Modifications required to our audit report

We have not identified any issues which would result in us proposing to issue a modified audit opinion. Our draft audit report, in full, is set out in Appendix B.

As described within our response to the significant risk surrounding the valuation of the Council's property, plant and equipment portfolio, our draft auditor's report set out in Appendix B includes an 'Emphasis of Matter' paragraph with respect to the disclosure of material valuation uncertainties. Our opinion on the financial statements is not qualified in respect of these matters.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	



5. Internal control recommendations

Deficiencies in internal control – Level 2

Completeness of Property, Plant & Equipment valuations

Description of deficiency

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

Potential effects

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

Recommendation

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

Management response

To add following Committee meeting.

Bank reconciliation – Level 2

Description of deficiency

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

Potential effects

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

Recommendation

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

Management response

To add following Committee meeting.



5. Internal control recommendations

Follow up on previous internal control points

Lease Disclosures **Level 3**

Description of deficiency

As part of the audit we have completed a detailed review of the Council’s disclosures in respect of leases. When reviewing the disclosures in respect of leases where the Council is the lessor we identified errors in the assessment of future lease disclosures, with the calculation for all lease payments being based on the incorrect starting point (year). As a result the assessed value of future lease payments was overstated.

In addition, testing of leases where the Council is the lessee we identified an errors in the assessment of future lease disclosures for a tested item, with the calculation not being updated to reflect a change in the specific lease arrangement. As a result the value of future lease payments was understated.

Potential effects

Errors in the calculations give rise to the Council including incorrect disclosures within the financial statements.

Recommendation

The Council should review its procedures for review and update of the future lease disclosure payments, ensuring that these are updated for changes in financial periods and amendments to individual leases as appropriate.

2020/21 update

The Council implemented improved procedures supporting the preparation of the 2020/21 financial statement disclosures, and no further issues have arisen. We note, as part of preparation for the adoption of IFRS16, the Council will need to continue to review its processes to complete required disclosures.

Group Financial Statements **Level 3**

Description of deficiency

On receipt of the draft financial statements we completed an initial review of the content and disclosure that have been made by the Council. This review noted improvements were required to disclosures in respect of the around the group financial statements. Particular improvements noted for inclusion were:

- Amendment of the primary statements included within the Group statements
- Update of disclosures to include comparative data
- Revisions of the notes to the group statements to include additional information in line with the Code requirements
- Extension of the Council disclosures in respect of related party transactions

Potential effects

The Council including insufficient disclosures within the financial statements.

Recommendation

The Council should review its procedures for review and update of the disclosure within the financial statements, ensuring there is sufficient consideration of the Code requirements and the understanding of the user of the accounts when agreeing the disclosures to be made.

2020/21 update

We are completing our review of the Council’s group financial statements as part of the 2020/21 audit and to date have not identified any amendments required as a result of the audit procedures.



5. Internal control recommendations

Follow up on previous internal control points

Financial Instrument Disclosures Level 3

Description of deficiency

As part of the audit we have completed a detailed review of the Council’s disclosures in respect of its financial instruments. As part of this review we noted an apparent inconsistency in the assessment of one specific asset, for the Resonance Property Investment Fund, which we considered should be valued on a different basis under the requirements of IFRS9. As a result the Council has reviewed the assessment and valuation of the asset and made appropriate adjustments and disclosures within the revised draft financial statements..

Potential effects

Incorrectly classifying an asset or liability in line with the requirements of IFRS 9 gives rise to errors in the calculations of values and the Council including incorrect disclosures within the financial statements.

Recommendation

The Council should review its procedures for review and update of its assessment of individual financial assets and liabilities, ensuring that these are updated for changes in values as appropriate.

2020/21 update

We have yet to complete our work on financial instruments.



06

Section 06:

Summary of misstatements

6. Summary of misstatements

Adjusted and unadjusted misstatements

We have not identified any adjusted misstatements above the trivial threshold, but have identified the following unadjusted misstatements:

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: PPE valuations (L&B) Cr: CIES – Revaluation gains Dr: CIES – Capital adjustments Cr: Revaluation reserve		1,215	1,215	
		1,215			1,215
Being the adjustment to revise the valuation of affected properties to reflect the impact of additions that had not appropriately considered within the original revaluation entries.					
Total unadjusted misstatements		1,215	1,215	1,215	1,215

Disclosure amendments

The following disclosure amendments have been discussed:

- General: A number of minor presentational and typographical changes made to the financial statements that do not require individual analysis.
- Disclosures: A number of improvements to disclosures in the financial statements, including:
 - Amendments to the accounting policy disclosures to reflect code requirements.
 - Detailed information disclosed in respect of Related Party Transactions.
 - Specific disclosures made around the Critical judgements and assumptions made by the Council within the financial statements.

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Summary of misstatements

Appendices

07

Section 07:

Value for Money

7. Value for Money

Approach to Value for Money

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

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

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

The table overleaf outlines the risks of significant weaknesses in arrangements that we have identified, the risk-based procedures we have undertaken, and the results of our work.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We intend to issue the Auditor's Annual Report in [insert date].

Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report in 31 January 2022.



Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

Appendix A: Draft management representation letter

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

Dear Suresh

London Borough of Lambeth - audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of London Borough of Lambeth ('the Council') for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.



Appendix A: Draft management representation letter

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates are reasonable, including:

- those measured at current or fair value;
- Provision for Reddress;
- Provisions relating to Thames Water fees; and
- provision for NNDR Appeals.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.



Appendix A: Draft management representation letter

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Finance for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
 - o management and those charged with governance;
 - o employees who have significant roles in internal control; and
 - o others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council’s financial statements communicated by employees, former employees, analysts, regulators or others

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.



Appendix A: Draft management representation letter

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Group accounts

I confirm I consider where any of the Council’s subsidiary companies have not been included within the group accounts prepared, their inclusion would not have a material impact on the accounts.

Unadjusted misstatements

I confirm that there were no uncorrected misstatements.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.
Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Private Finance Initiative

I confirm that, to the best of my knowledge, there have been no significant contract variations agreed during the year. There have also been no off-programme lifecycle expenditures.

Yours sincerely

Christina Thompson
Director of Finance & Property, Section 151 Officer

Date:



Appendix B: Draft audit report

Independent auditor’s report to the members of London Borough of Lambeth

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of London Borough of Lambeth “the Council” for the year ended 31 March 2021, which comprise the Council and Group Comprehensive Income and Expenditure Statement, the Council and Group Movement in Reserves Statement, the Council and Group Balance Sheet, the Council and Group Cash Flow Statement, Housing Revenue Account, the Movement on the Housing Revenue Account Statement, Collection Fund Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council as at 31st March 2021 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Impact of Covid-19 on the valuation of land, buildings and, investment property and pension fund pooled property investments

We draw attention to Note 5.4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council’s land, buildings and investment property, and the valuation of the Council’s share of the Lambeth Pension Fund pooled property investments. As disclosed in Note 2a to the financial statements, the Council’s and Pension Fund valuers have included a ‘material valuation uncertainty’ declaration in their reports because of the Covid-19 pandemic. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance & Property’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.



Appendix B: Draft audit report

Our responsibilities and the responsibilities of the Director of Finance & Property with respect to going concern are described in the relevant sections of this report.

Other information

The Director of Finance & Property is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance & Property for the financial statements

As explained more fully in the Statement of the Director of Finance & Property’s Responsibilities, the Director of Finance & Property is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Director of Finance & Property is also responsible for such internal control as the Director of Finance & Property determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance & Property is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Finance & Property is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Appendix B: Draft audit report

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, the Local Government and Housing Act 1989 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Director of Finance & Property’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Finance & Property’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.



Appendix B: Draft audit report

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception

We are required to report to you if, in our opinion, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control
recommendations

Summary of
misstatements

Value for Money

Appendices

Appendix B: Draft audit report

Use of the audit report

This report is made solely to the members of London Borough of Lambeth Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to:

- satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- issue our assurance statement in respect of the Council’s Whole of Government Accounts consolidation pack.

Suresh Patel
For and on behalf of Mazars LLP

Tower Bridge House
St Katharine’s Way
London
E1W 1DD

Date



Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Audit fees

We have reflected in the table below our estimate of the impact on scale fees set by PSAA of changes in the scope of our work arising from the new NAO Code, revisions to auditing standards and increased regulatory requirements. We will quantify our final fees on conclusion of the audit, provide supporting information and seek agreement with the Director of Finance and Property and then approval by PSAA.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work (Scale fee)	£160,038	£160,038
Fee variations:	-	-
- VFM Code requirements (note 1)	£10,000-£19,000	-
- ISA 540 (revised) accounting estimates (note 2)	£4,400-8,000	-
- Correspondence / objections (note 3)	TBC	-

Notes

1. The 2020 NAO Code has increased the work required to understand the Council's VFM arrangements, assess the risk of significant weaknesses and prepare a VFM commentary. This work is in progress and the additional fee will fall within the range established by PSAA.
2. The auditing standard in respect of auditing accounting estimates (ISA 540) was revised requiring auditors to carry out enhanced risk assessment procedures and increasing the focus on professional scepticism. We have used the minimum additional fee published by PSAA for the bottom of our range.
3. The additional time taken to deal with correspondence from the public and responding to objections results in additional fees. When we have completed our work on the outstanding objections we will quantify the additional time and audit fee.

Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
External confirmations	<p>We did not experience any issues with respect to obtaining external confirmations.</p>
Related parties	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	<p>We have not identified any evidence to cause us to disagree with the Director of Finance & Property that London Borough of Lambeth will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>
Subsequent events	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>

Appendix D: Other communications

Other communication	Response
<p>Matters related to fraud</p>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Corporate Committee, confirming that</p> <ul style="list-style-type: none"> a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: <ul style="list-style-type: none"> i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.



Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.